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April 2010 Monthly Newsletter

Spring Fever

March was all about healthcare reform as that storyline dominated the headlines for the majority of the month. The monumental piece of legislation will have dramatic impacts on Americans in years to come. Unfortunately, it looks as though one of those impacts will be in the form of increased capital gains taxes. It remains to be seen whether this piece of legislation will have the desired effect on the rising cost of healthcare in this country. The market eagerly awaits clarification on what the Healthcare Reform Bill means as the newest law of the land.

The equity markets continued their run from the lows of 2009 with the S&P 500 up close to 5% for the month. It was an even better month for small caps and emerging markets with the Russell 2000 small cap index up close to 6% and emerging markets up slightly more than 6% for the month.

The outperformance of the smaller caps and emerging market stocks is more justification that this rally is not a bear market rally. Are we in the midst of a market recovery and potential new bull market? In a typical recovery, large cap stocks are typically the first to recover as value investors recognize extreme oversold conditions and buy large stable companies with low valuations. When the economic data begins to improve and fears begin to ease, investors find more confidence for risk. Investors show their confidence by shifting their focus to small cap stocks and emerging market stocks which tend to have the highest risk/reward factor.

I continue to focus on unemployment and interest rates as key factors to watch in the upcoming months. If interest rates start to trend upward, there will be a shift from treasury bonds to more inflation sensitive investments such as TIPS and commodities. I will also continue to keep an eye on unemployment. I commented in prior newsletters that if consumer spending holds up, inventories will decline and manufacturing companies will need to hire to keep up with the increased demand for goods. Consumer spending numbers have been fantastic in the recent months and manufacturing companies are beginning to report a shortage in inventory levels. If my theory holds true, we will begin to see an uptick in hiring in the manufacturing sector to keep up with the resilient US consumer.

In this ever-changing political and economic environment, sensible diversification is the key to weathering any market uncertainties.

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