

The S&P 500 was up 15.93% for the second quarter of 2009. Impressive by any standard, however it is still down some 40% from its peak in 2007. We think the worst is behind us for the economy and the markets.

This is not the 1930's. The statistical evidence indicates that earnings for the majority of stocks have troughed. A cyclical recovery is on the way and unemployment will peak within 12 months. The Fed has done a great job of stabilizing the financial system. We can take a lot of pride and comfort that they are ready and able to backdrop the economy and markets. This is truly a great country.

The fiscal stimulus is only 10% spent, 2010 and 2011 will see the greatest impact. Consumer driven boom times in 2011 and a triumphant re election of Obama are almost assured. We expect stocks to act OK during this period as consumer balance sheets reliquify and housing bottoms and recovers.

We favor technology stocks and believe that we are in the beginning of a large upgrade cycle. New software and hardware from Microsoft, Apple, Google, Cisco, Intel, Qualcomm, and Broadcom amongst others is supporting the strong shift toward mobile computing and networking. It is a huge global trend.

Three other themes are the recovering consumer and finance sectors, the continuing attractiveness of energy, and inflation beneficiaries. We are researching companies that fit our rigorous investment criteria of showing good valuation AND growth characteristics.

In finance we favor the large banks and investment houses that have benefited from government and taxpayer money. The cash flow yields from energy companies are hard to ignore. The sector continues to rank high in our quantitative analysis. Inflation beneficiaries include materials and metals. We hold positions there on an opportunistic basis. The portfolio is then diversified with high quality large cap defensive companies that exhibit high profitability, dominant industry positions, and decent growth.

In summary, we are cautiously optimistic. The monetary and fiscal stimuli will work. The economy will grow again and the powerful global force of developing China will re emerge as a dominant theme for years to come.