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Over the past few weeks, we recognized that the debt ceiling discussions and potential downgrade in US securities was creating a certain amount of turmoil and angst in the stock market. We strongly felt that reality would eventually trump politics and that a deal would be struck. The longer term picture was, in our opinion, still positive, and while we were in a slow patch, the stock market would be higher by December. Once the debt deal was complete and it appeared that there would not be an immediate downgrade, then that debt discussion piece was removed from capturing all of people's attention and the investing process could return to "normal," whatever normal is these days. The longer term picture has not really changed from two weeks ago. However, once the market finished focusing on the US, it turned back to the EU, which is what caused last Thursday's selling. Our belief now is the following:

- 1) Fear is driving the market down. Capitulation is very evident, particularly in light of Standard & Poor's downgrade of US debt. (Bank of NY Mellon is now even charging a fee on large cash balances in custody accounts)
- 2) Equity prices are declining more from a buyer's strike rather than short sellers having conviction. Fear is causing investors to reduce exposure.
- 3) Economic growth is slowing, but a recession is not (yet) expected, and investors are losing confidence that regulators in Europe and US are able to help calm the crisis. But as Mohammed El-Erian (President of PIMCO) said on Friday morning, "We should not underestimate the markets' ability to recover if, for once, policymakers were to surprise on the upside. After all, there is lots of cash on the sidelines and most large companies (particularly multinationals) have impressive rock-solid balance sheets."
- 4) Asset values in general (and equities in particular) are not overpriced as they were in past sharp declines. We still face volatility and fear, but not a 2008-09 environment.
- 5) In many respects, large, well-capitalized, multinational companies are in better shape than the US and EU governments. They have more cash, better balance sheets, and are able to adjust to economic conditions without the interference of politicians and voices of receivers of entitlements.
- 6) The stock market today has a dividend yield of 2.36% which is higher than 10-yr Treasuries of 2.33%. On an after tax basis, investors are making more by investing in stocks.

The former CIO at US Trust always used to say that "Now is the hardest time to invest." Maybe it should be revised to "Now is the hardest time to stay invested."