

Market Commentary

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Please note: Scott Marcouiller will resume writing the *Weekly Market Summary* next week

Running on a treadmill

A few years ago, I decided to start running as a way to lose a few extra pounds. After logging a few thousand miles; encountering a few unchained dogs, wayward skunks and icy sidewalks; and participating in a few races, I've come to find that investing has a lot in common with running.

Just like the market, I have good and bad days, and at times it's hard to tell what lead to a particular outcome. Some days the conditions are ripe for a bad run — I don't get enough sleep and my allergies are acting up. Other days I'm cranky and tired but have a surprisingly good run. The reverse is also true. I can be well rested and feel great, yet have a run where I can't breathe or am tripping over my own feet. The unpredictable nature of my own body is frustrating. While I could expend considerable energy attempting to determine the impact of each factor, it's often better to just knock the dirt from my shoes and move on.

Likewise investors are also frustrated as market action remains unpredictable and they've had to endure three months of extreme volatility. Over the last few weeks, many notable firms and individuals have reversed positions on everything from the stock market to the euro to U.S. Treasury securities. These investors have approached the market from the fundamental and technical side and neither one has held the key. Like running on a treadmill, the only thing investors have to show for their work is a whole lot of movement, but not a lot of forward progress. We still find ourselves within the range of the "flash splash" and at close to levels we first hit in this cycle in October of last year. The S&P 500 index has been as high as 1220 and as low as 1011 but we find ourselves right back in the middle.

Last week was encouraging as we began to see some signs of approaching our destination. Second quarter earnings were encouraging as we had plenty of good reports and enough revenue growth to help allay the prior week's fears. We also had a mildly positive slate of economic data including Consumer Price Index (CPI), University of Michigan Confidence, Initial and Continuing claims and Housing Starts and Existing Home Sales numbers. These releases dovetail with our outlook that growth is likely to be tepid but that inflation is benign and that rates and policy will stay supportive. On the policy front, we also heard from Federal Reserve Chairman Ben Bernanke who spooked the markets by saying the economic outlook remains "unusually uncertain." However, he also reaffirmed the Fed's commitment should the economy need it, which we took as a positive.

Sometimes an extended cooling off period is necessary to prepare for the next run. After long runs or an especially hard workout, my legs are hot, tired and sore. To aid the cool-down and recovery, I take an ice bath. Even then, I'm often hot for hours as my legs attempt to recover from the intense workout. Similarly, equities' 80% move off the bottom may require an extended cooling off period before the market is ready for its next run.

We continue to believe that our destination, when we finally get there, will include another leg higher for equities. In the near-term, we believe the gyrations will continue as the market digests the enormous amount of earnings reports and economic reports due over the next few weeks. We continue to believe that sluggish growth, continued uncertainties over the macro outlook, and low investor participation will keep volatility elevated through the summer and into the fall. Once we get more clarity on the market's concerns, as well as mid-term elections and possible tax policy changes, we believe the fundamentals will reassert themselves. Stocks continue to trade at levels we find attractive, but we believe patience is important as the volatility could create better opportunities.

Early in my training for my first race, I'm reminded of a piece of advice I received. When things get hilly, relax, watch your form and keep moving. The finish line only gets closer if you keep putting one foot in front of the other.

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