

## Boenning Morning Comment

*This report is prepared for us by Tower Bridge Advisors*

March 15, 2010

Julius Caesar was told to beware the ides of March but if recent history sets the stage for today's session, the ides of March are probably nothing to be feared. Stocks continue to mark time waiting for either a technical upside breakout or a failure to break decisively into new high ground. Of late, there has been little fundamentally to aid either the bull or bear case. About the best the bears can muster is a lapse in reported consumer confidence and some shaky housing numbers that were probably at least partially impacted by weather. The bulls got a little more ammo on Friday with a nice retail sales report but the aforementioned sloppy housing data, persistent high unemployment and concern that earnings expectations this time around may be more difficult to beat than in recent quarters keep bulls tentative as well.

Perhaps over the next two weeks, as the first quarter comes to an end, company managements will begin to offer more definitive Q1 guidance. But if earnings prove to be better than expected, it is likely to continue to be a case of cost containment rather than any thrust upward on the top line. Earnings for all of 2010 may be near record levels, an amazing accomplishment given the severity of the recent recession and the lack of earnings in the banking sector. But investors remain skeptical, as they should, that profit margins can be maintained or increased from current levels. For growth to be sustained from here, there has to be improvement in revenues.

As we exit the recession, there isn't any reason to suspect that revenue growth can't be achieved. Over the next several months, I expect a gradual pickup in employment and continued improvement in exports as countries around the world also begin to recover. Corporate investment, mostly aimed at improving productivity, should be strong continuing a trend already in place. I have mentioned several times in recent weeks my concern about the state of the housing market and the chance that it might even roll over into another downturn if there is a sudden increase in the pace of foreclosures. But there are few signs so far of that happening. Indeed, home builders are seeing improved lot traffic. Skeptics point to the vast number of Option ARM mortgages coming due this year but the fears raised ignore a very stark reality. Homeowners don't want to lose their homes and lenders don't want to have to take further writedowns. Obviously, if a homeowner simply stops making mortgage payments for an extended period of time, lenders will be forced to foreclose. But that isn't what happens, at least not in mass numbers. More than likely today, five years after the housing meltdown began, those who are way under water and way behind on payments have been dealt with. As layoffs become fewer and as prices begin to stabilize, the number of new acute problems begins to moderate. That doesn't mean the problems are going to go away. Tens of millions of mortgagees today are underwater. Their homes are worth less than their mortgage balance. But as long as they keep paying and make the effort to stay in their homes, banks continue to have little incentive to aggressively move down the foreclosure path. Ultimately the losses will be realized unless housing values make a sharp recovery. But those losses are likely to be spread out over years and are not likely to derail the recovery.

If that thesis proves correct, we continue to believe that GDP growth of about 3% plus or minus a percentage point in any given quarter, will continue for the foreseeable future. That may not sound like a robust number but it will be good enough to allow good businesses to grow. Those multi-national companies with strong sales

in the development world might even see 5% or greater top line growth. Another important feature is that many if not most blue chip companies today have sustainable strong positive free cash flows. They will be used in one of four ways, all good.

- They can be used to expand the business.
- They can be used to make strategic acquisitions many of which will consolidate industries that have too much excess capacity.
- They can be used for dividends. I expect to see an increase in the number of companies raising dividends in 2010 and 2011.
- They can be used to repurchase stock.

The bottom line is that I expect the news front over the next few weeks to be encouraging, at least on the economic front. My guess on health care legislation and other matters before Congress is no better than any of yours. As an investor, I think getting health care behind us one way or the other will be a positive although I continue to believe the current bills are all significantly flawed in that they don't go nearly far enough to reduce costs. As for other legislation, it is hard to believe this Congress is on a path to passing anything beyond health care of much economic importance. Even financial reform, if anything passes at all, appears likely to be so neutered and watered down as to be of only modest consequence.

Thus, the good news is that I see the path of least resistance to be higher. But there aren't a lot of tempting bargains right now so I don't expect a very robust upward move. A percentage point a month increase sounds very boring but 12% gains for the year would be welcome by most investors.

Today Eva Longoria is 35. Actor Judd Hirsch is 75.

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Additional information is available upon request.

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