

Boenning Morning Comment

This report is prepared for us by Tower Bridge Advisors

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Stocks finished mix yesterday. Early weakness related to disappointing reports on manufacturing in New York and the Mid-Atlantic regions sent stocks lower in the morning but rumors that an SEC settlement with Goldman Sachs was imminent spark recovery in the afternoon. After the close, it was announced that indeed the SEC and Goldman had reached a settlement.

But settlement talks aside, it is the economy and earnings that matter. Consensus thinking today is that the economy is in slowdown mode that could leak into a double-dip recession although the majority believe that it is more likely that the U.S. economy will muddle along at a very slow pace for an extended period of time. We have been of that belief for some time. However, I think there is evidence that recent pessimism may be overdone.

To explain my logic, I have to look backwards before looking forward. In late 2009 and early 2010, it appeared that the economy was on a nice road to recovery. But by late April a series of concurrent events seemed to stop the economy in its tracks. A sovereign debt crisis in Europe sent the stock market into a tailspin. The first time home buyer tax credit ended. Health insurance reform passed causing employers to hesitate in their new hiring without knowledge of what fringe benefit costs would be. A ruptured oil well cost tens of thousands of lost jobs. Soon thereafter, pressure on state and local governments in front of June 30 budget deadlines added to the unemployment rolls. Temporary census workers began to lose their jobs. Now financial regulatory has passed creating even more uncertainty before over 500 new regulations are written.

That's a lot of bad news in a relatively short period of time.

But the good news is that most of the bad news is temporary. Eventually, home buyers will return as markets adjust. Soon the census will be complete and no more workers will be laid off. The BP oil well will be capped soon. Life along the Gulf will gradually return to some semblance of normal over the next several months even if deep water drilling doesn't restart. Health insurance procedures will gradually become clearer. Financial reform regulations will take longer to write but the uncertainty will slowly begin to disappear. Meanwhile, private sector hiring is increasing, weekly jobless claims are decreasing and disposable income is rising. For the last three weeks, chain store sales have improved and have risen 3% or more from year ago levels.

My guess is that growth will either stabilize or actually improve over the next six months provided there are no more new major job-busting initiatives out of Washington. Who knows? Pressure from various directions might even result in modest tax relief that will lower the future dividend and estate tax rates. Did you know that dividends are going to be taxed effectively at 68% next year if nothing happens? That not only counts the 39.6% top rate on individuals but also includes the 35% tax rate corporations have to pay. If nothing happens, the U.S. dividend tax in 2011 will be the highest in the world! Label it anything you want. Productive isn't the right word.

My bottom line is that the confluence of bad news may be at its peak right now. Housing can't get worse. Weekly jobless claims suggest that the employment picture might be ready to increase. The consumer, the lynchpin of GDP, is slowly beginning to spend again even as it keeps saving money at a healthy 4% clip. There aren't likely to be any

more big Obama initiatives before elections. Even if Republicans don't regain control of the House, they are likely to make enough gains to slowdown the pace of new agenda initiatives going forward.

Traders, who dominate markets today, don't look far ahead. 2011 is off their radar screens. For the next few weeks, they will be more concern whether Corporation X beats earnings by a penny or misses by a like amount. They could send stocks higher or create another tailspin. But those of us willing to look just a little further ahead may be able to take advantage of any excess pessimism.

Today Michael Flatley is 52. Former Miss America Bess Myerson is 86.

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Additional information is available upon request.

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