

Boenning Morning Comment

This report is prepared for us by Tower Bridge Advisors

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The Dow rose by more than 100 points last Thursday and Friday and again on Monday. Such a three day streak has only occurred 8 times in history. There have never been four consecutive 100 point up sessions. Yesterday didn't break the record although the Dow managed to close mixed in a rather quiet session.

At the end of June, stocks were falling like a rock but resistance appeared to holding at about 1040 on the S&P 500. But then one day, that barrier fell as well. Traders screamed all sorts of panic alerts as the averages fell another 2-3% quickly. Some even predicted another excursion down to the March 2009 lows. If you listened to the most strident bears, another recession was upon us. FinReg was going to be a disaster. Greece, Spain and Portugal were about to default on their debt to be followed in due course by the UK and even the United States.

We all know what happened next. None of that came true and stocks rallied. And they continued to rally right into yesterday. Finally, the Dow Industrials recovered all the ground lost so far in 2010. We are back to even.

Time to celebrate? Not really. The reality is that the economy was recovering at a moderate pace and is still recovering at a moderate pace. Sure, it hit a little speed bump when the housing tax credit expired, when the BP well exploded, and when the stock market took a header. It certainly hasn't helped much that Washington blamed the business community for everything and the business community blamed Washington for everything. But rhetoric can't change the facts.

The facts are that for six months, the private sector has been creating net new jobs. GDP is rising at a low single digit pace. Disposable income is rising slowly. At the same time, consumers are repaying debt and bank loan balances are shrinking. Savings are rising but only back to historically normal levels. Europe has settled down. The reality is that the economy is creating just enough jobs to keep the unemployment rate steady. The bad news is that isn't a big help to 8 million people thrown out of work over the past 2+ years.

Is the picture about to get any brighter? Actually, I think it might. Housing shows faint signs of stirring and prices are holding steady. The oil well has been capped. FinReg and Health Insurance reform have been passed. All the regulations remain to be written but the basic framework removes some of the uncertainty. Hopefully within a couple of months we will get a better sense of the tax structure for 2011. As uncertainty is reduced, confidence to make appropriate business decisions should rise. Stock prices have stabilized as have home prices. Europe has stabilized as well. After Congress decides what to do about the Bush tax cuts, most of the Obama agenda will be done, at least those parts likely to get accomplished. Cap and trade? Forget it. It is dead on arrival. Immigration reform? Not likely either any time soon. After three tumultuous years, it is time for a breather.

Against that backdrop, and given that many companies are reporting record earnings, stocks should be appealing investments. I am not suggesting to race out and buy indiscriminately but I believe that a flat stock market in a year where profits might reach record levels on a road to even higher numbers next year grabs attention.

One must remember, however, that the world of tomorrow will look a lot different than the world of two years ago. It will be a world with a lot of excess capacity. It will be a world where the growth happens several continents away from us. It is a much more regulated world, particularly in health care and banking. It is a world where cash is king and leverage is a four-letter word. It is a world where credit is not readily available to all who want or need it. It is a world where governments will spend more leaving less for the consumer. It is a world with lots of available labor. It is a more networked world and a world where smarter devices bring Dick Tracy comics to life.

Some of your old investments fit neatly into this package but some don't. Many new businesses are becoming tomorrow's titans. We continue to favor (1) companies with large growing free cash flow, (2) companies that aren't dependent on strong economic tailwinds for growth, and (3) companies that do significant business in emerging markets.

Life could be even better in a more civil world. Lately we have seen the evils of rushing to judgment too quickly as demonstrated in the Shirley Sherrod episode. Businesses and Washington talk of calming the rhetoric but neither has begun. I was taken aback earlier this week when Press Secretary Gibbs admonished new BP CEO Robert Dudley that the US government would hold him fully accountable for all the costs of Gulf Coast cleanup even before he was appointed. Was that bully pulpit statement meant to score political points? Maybe it did but it sounded overly harsh to me. Bob Dudley knows where he stands and he said it very flat out within minutes of taking office. The Brits get infuriated every time the Administration calls BP (the correct name) British Petroleum (the old name). It is a perfect example of the needless name calling and harsh behavior that needs to stop.

Business recovery is all about confidence. When a manager is confident of the future, he hires. When he doesn't he sits on his hands. None of the screaming in either direction builds confidence. It isn't just the President and it isn't just the Democrats. Listening to Bob Dudley today inspired confidence that BP is ready to meet its obligations and do a better job. He made no ultimatums and offered no guarantees he couldn't live up to. He just talked straight. More of that talk will increase confidence, economic growth and jobs. Gee, isn't that a pleasant thought? Chris Christie can get a game changing budget passed in New Jersey with a Democratic legislature. Politicians can work together. If that experience can translate to Washington, confidence will build and so will employment.

Today Sally Struthers is 62. Former Senator Bill Bradley is 67.

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Additional information is available upon request.

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