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March 30, 2010

Big vs. Small

How can we have a strong stock market when unemployment remains high?

There are six million businesses in the United States with employees---that excludes the 20 million+ single person businesses. Of the six million only about 3,000 qualify as "investable"---large enough market value to allow firms of our size to commit client capital.

The investable companies are what we were thinking of as "big" when we wrote the headline and most of the rest are small. Small in size, but very important to the economy: half of the American work force is employed by businesses with fewer than 100 employees and most of the new jobs in the last 20 years were added by these small firms. (Four right here at Dock Street!)

These numbers help to explain why the stock market can be so strong in the face of high unemployment, no job growth (so far), and the first reduction in over all credit since World War II.

Small businesses were hurt most by the Great Recession. They had no foreign markets for their products, they were cut off from bank loans, and most of the new taxes being discussed are aimed at their owners.

Big non-financial businesses came through this mess in fine shape. Sales in Asia came back in a hurry, these companies don't need banks, and none of the new tax ideas apply to them. On top of that their labor costs fell and have stayed low. High unemployment helps bigger companies keep costs down and the 90% who are still working have begun spending. Profits at the big firms are going through the roof and they are doing it without loading up on debt.

The nasty part of all this involves those looking for work. As small businesses hold back on hiring, the large companies can have their pick of talented people at reasonable salaries. Wages stay down, sales are OK, and profits are fabulous.

Investors who are focused on the unemployment rate, foreclosures, and taxes will miss an opportunity by ignoring profits---the primary driver of stock prices.

Our portfolios are geared for a good recovery in the economy with heavy weightings in Technology, Energy, Materials, and selected emerging markets.

Best regards,



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