DOCK STREET ASSET MANAGEMENT

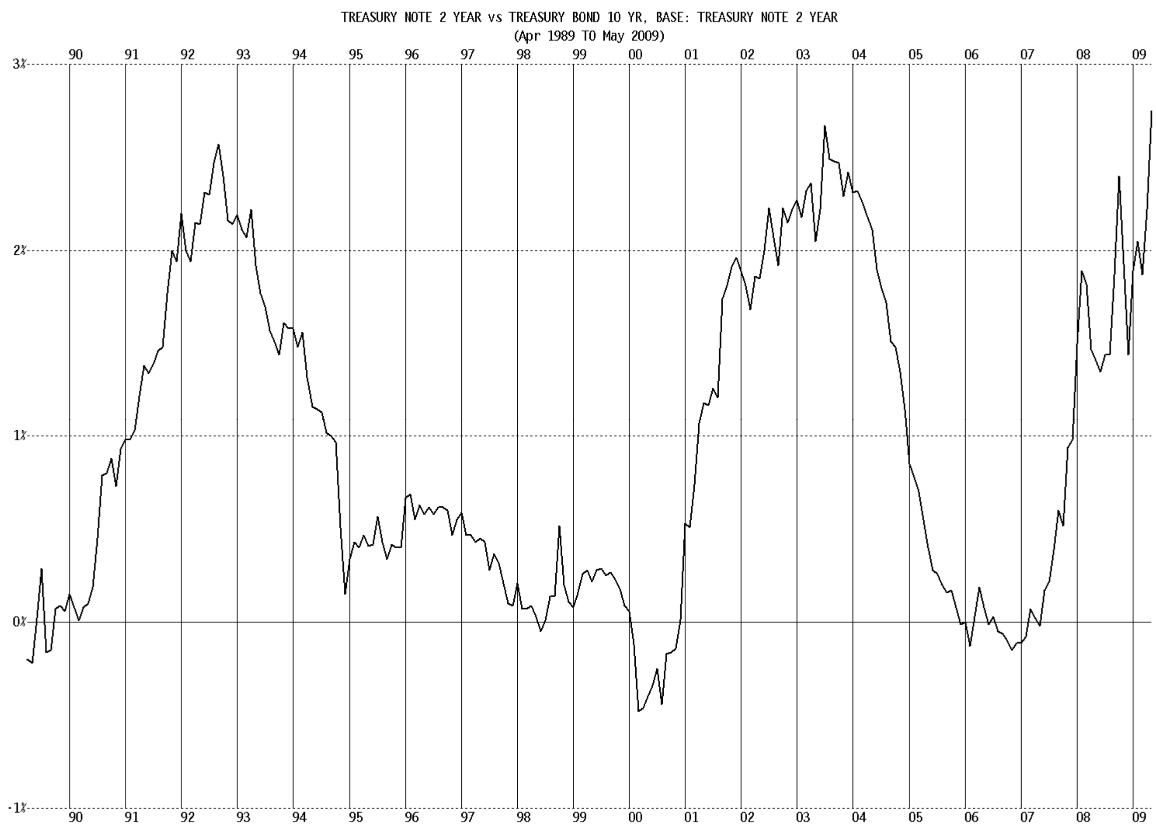
6/1/2009

Is the Recession Ending?

Purchasing managers here, and especially China, signal a bottom

This would have been a silly question to ask a couple of months ago, and it might still be, but there is more evidence that the worst of this slump is behind us.

This chart may be the best single indicator of how things have changed for the better in the last six months. It shows the difference (or spread) between the interest rate earned on the ten-year Treasury bond and the two-year Treasury. When the spread is this wide it becomes insanely profitable for banks to lend and capture some, or all, of this interest rate differential. The last two times this happened were very good times to invest in stocks, September of 1992 and May of 2003.



This chart is commonly referred to as the "yield curve" and when it is "steep" like now money is "easy" and when it is "flat" like in 2007, money is "tight". We use all the scare quotes because we think it is important for clients to know some financial jargon, but we hope to avoid using the stuff ourselves. In this case these are terms you may hear floating around and we hope this helps your understanding of the conversation.

The second piece of evidence that suggests a turn in the economy is the stock market. It may correct back to the March lows as many investors expect, but increasingly it looks like it might not cooperate with that scenario. (Lots of investors are hoping for a correction that will allow them to put their large cash hoards to work---the market, so far, is not making that easy.)

But more important than the strong market is what sectors are working best: Energy, Technology, and Emerging Markets. These sectors are cyclical, in other words they either benefit or are hurt by the economic cycle. The strong performance of these economically sensitive stocks is signaling a stronger economy in the second half of the year.

We continue to bet on a stronger economy in the second half---but we didn't say "strong". A weak housing market, rising unemployment and less than ample credit availability will make this a wimpy recovery in the U.S.

It's a different story in Asia and that's where most of our cash was deployed this spring. More on that later this week.

Best regards,

Daniel A. Ogden

PS Performance in May was very good, both compared to the indexes and more importantly, in real dollars. It's OK to open the mail again.