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March 19, 2010

## What Stocks are Telling Us

*Look out above – this recovery is for real*

In our reading this week we came across the following (astounding) comment:

**“Although the stock market can, and has, mistakenly predicted more recessions than actually have occurred, it has *always* accurately anticipated a recovery. There has never been an episode where a cyclical bull market in stocks did not presage a business-cycle recovery.”**

This sounds about right to us since investors are probably much more worried about participating in a recession and bear market than they are in missing a recovery and a bull market. (For the skeptics out there we've included a chart at the bottom of this piece that supports this contention)

This came from a recent article written by Chen Zhao, Managing Editor of the Global Investment Strategy at BCA. Zhao's main point is that investors remain far too skeptical about this recovery, particularly if your focus is on large investable businesses---in other words, publicly traded stocks.

While small businesses continue to struggle, companies listed on the major exchanges are reporting strong profit growth, healthy balance sheets, and unprecedented efficiency. Watching the economy too closely can get in the way of seeing great investments when they are offered.

But the stock market can provide even more clues about the economy. Below is a chart comparing the performance since December of the S&P 500 and the S&P Mid-cap Index---a comparison of the 500 largest companies with the next 400 largest.



Companies in the Mid-cap Index tend to do more business in the US than those in the S&P 500, which derive more of their sales from outside the US. The recent strength in the Mid-cap stocks suggests that the US economy is beginning to shift into a higher gear. Not “high gear”, but higher.

Combined with the statement we started with, it makes sense to us that our portfolios should be prepared for stronger economic growth rather than any “new normal”.

Best regards,



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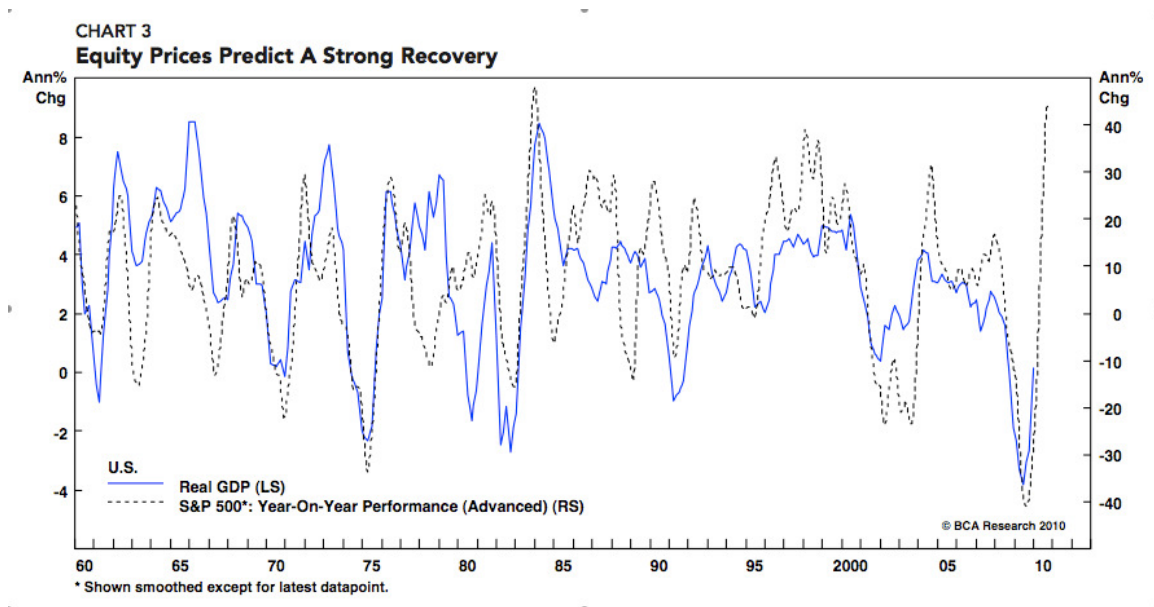
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