Market Notes July 24, 2009

Earnings Euphoria Meaningless and Irrelevant

Lowe *fs* has a question for you. If you set the bar for a goal so low that you will most certainly achieve it, is it appropriate to celebrate the achievement of that goal? According to the stock market the answer is yes.

Lowe *fs* thinks otherwise and believes the recent market euphoria is meaningless and irrelevant -- not that we are complaining. It just seems that analysts have lowered corporate earnings targets to the point where they are impossible to miss. Further, much of the earnings can be attributed to cost cutting measures such as layoffs. The current earnings numbers are not showing true or any revenue growth.

And, there is the phenomenon of capitulation to consider. In other words, those investors who are in cash have been growing more nervous by the day. They are so afraid that the stock market rally is passing them by they are panicking to get into the market. This phenomenon has added the gains that the market has seen in the past week and a half.

There seems to be a prevailing view among investors that we are nearing or are in a recovery.

Is this rally sustainable or is it built on sand? While we are bullish in our long term (one to three year) outlook, Lowe *fs* believes that intermediate term risk exists in the stock market. An intermediate term stock market retrenchment in the range of 5% to 10% would not surprise us.

In order for any rally to be sustainable bank losses must peak, unemployment must peak and consumers must start spending again. Any increase in unemployment or unexpected bank losses could be a catalyst for an intermediate term stock market correction.

Other threats to the markets include inflationary pressures and a looming potential crisis in the commercial real estate sector. With regard to earnings, at some point investors will acknowledge that stabilization is not a recovery and revenue beyond cost cutting measures will be needed.

While we recognize the risks from a valuation standpoint the stock market technical indicators are quite strong. According to Morris Segall of SPG Trend Advisors, over 100

new 52 week highs have been recorded on the NYSE. Further, the volume of trading is high and the momentum of the stock market is very strong.

So what strategies is Lowe *fs* utilizing in our actively managed accounts? We have gradually been moving back out of cash and closer to our target allocations. In fact, we allocated significant portions of cash while the market was near the lows in March and April. While we are still overweight in cash, we are within 5% of our target allocations in most cases.

We also have shifted to a slightly longer time frame as we evaluate potential strategies. Over the past year and a half Lowe *fs* focused on very short term movements in the market. Presently, our view for strategies has extended to one to three years.

While commodities have been volatile recently, oil, gold and water have a positive role in many portfolio allocations. We continue to believe that the level of risk in fixed income is increasing. As a result, we are very short term in fixed income or temporarily "in cash" for that component of our allocations.

Lowe *fs* continues to counsel with Morris Segall of SPG Trend Advisors and Anirban Basu of the Sage Policy Group regarding the market and economic situation. As trends become clear, we will update our strategies as needed.