



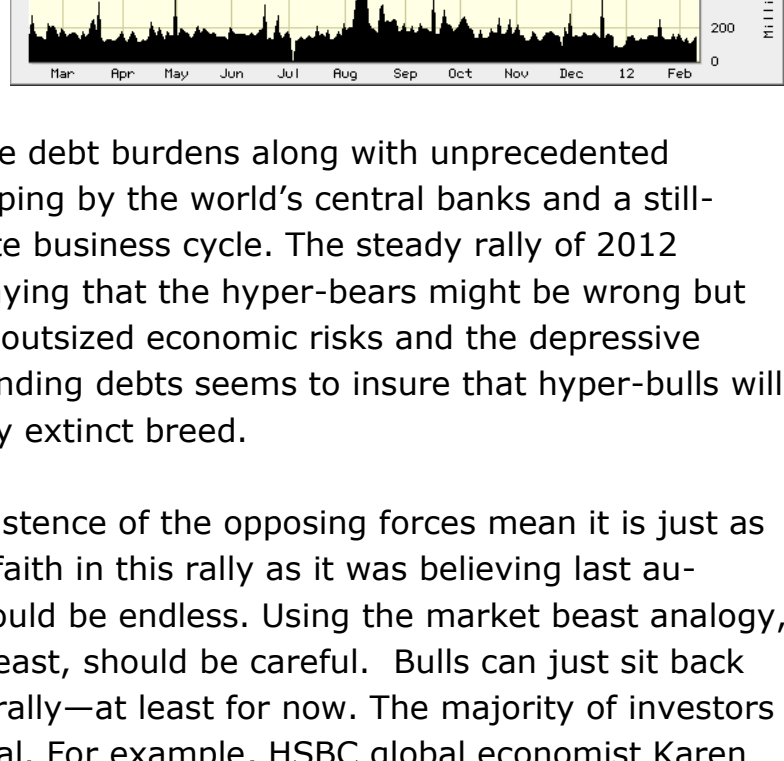
FEBRUARY MARKET COMMENT

Risks and Rallies Persist

February 10, 2012

Bulls, Bears and Sheep: Most of us are still trying to gather our wits after being pummeled by the stock market's wild and woolly ride in 2011. So it isn't surprising that investors are both astonished and confused by the amazing rally of the first month and a half of 2012. The largest point move this year was the first trading day when the Dow gained 146. It has since plodded steadily forward with minimal volatility and, as of February 9, is up 5.5% for the year. (Actually, stocks calmed down in December with lower volatility but only a small, 0.8%, net gain.)

The change in tone can be attributed to some display of common sense by European leaders as they continue to grapple with seemingly impossible debt burdens along with unprecedented monetary pumping by the world's central banks and a still-powerful private business cycle. The steady rally of 2012 seems to be saying that the hyper-bears might be wrong but the continuing outsized economic risks and the depressive effects of unwinding debts seems to insure that hyper-bulls will remain a nearly extinct breed.



The likely persistence of the opposing forces mean it is just as hard to retain faith in this rally as it was believing last autumn's funk would be endless. Using the market beast analogy, the sheep, at least, should be careful. Bulls can just sit back and enjoy the rally—at least for now. The majority of investors remain skeptical. For example, HSBC global economist Karen Ward says there will be no sustained recovery in western economies until real household incomes - stagnant for five years and making it harder to pay off debt - start to pick up. And, she adds, political and policy deadlock on both sides of the Atlantic remains largely unresolved. She also reminds us that we saw "green shoots" and enthusiasm early in 2011 only to see it fade in a cloud of crisis.

So, if last year's rally and swoon is a template for 2012, is it time for a more tactical investment approach? Adopting a deliberately counter-intuitive strategy over the past year would have worked nicely. Buying stocks in October as talk of double-dip U.S. recession and even depression was all the rage would have provided, as of now, a gain of more than 20 percent—**and that plus 20% move puts us, technically, in a "bull market!"**

The U.S. economy has delivered better than expected employment and housing numbers of late and China's economic slowdown remains modest. Plus, the European Central Bank's early 2012 injection of reserves was decisive in defusing the threat of a euro banking and sovereign debt meltdown and they plan another injection on Feb. 29; all of which implies the good times could keep rolling. But, is the U.S. economy, with a jobless rate still over eight percent and government debt heading to more than 110 percent of gross domestic product really capable of a sustainable upswing in the face of months of a highly charged political environment? Is the euro crisis in all its messy complexity really over? A reasonable answer to both is, **"probably not."**

Although we have enjoyed a +20% move that should continue longer, conditions simply don't support a belief that we are heading into a new bull market. What we are experiencing is a rebound from excessive economic and investor pessimism that has been assisted by massive monetary stimulus. The improvements in both the markets and the economy should be enough to avoid the kind of worst-case scenario worries that evaporated confidence in 2011 but it seems inevitable that this rally will run out of steam before the year reaches the halfway point. Investors should sheepishly continue to seek equity exposure in cyclical sensitive, financially strong companies while remaining cautious of any meaningful deterioration in the current bullish tone of the market.

Best regards,
Ted Ingraham

EGI Financial, Inc.
American Heritage Securities, Inc.

To remove your name from the Market Comment newsletter [click here](#).
Questions or comments? Email us at ahs@egifinancial.com or call 330-535-0881.