

It's a Stock Picker's Market

The first quarter of 2004 is on the books, with all of the major indices showing little change. The S&P 500, which is comprised of the 500 largest companies as measured by market capitalization, (the number of shares outstanding multiplied by the price per share) eked out a modest +1.3% gain for the quarter. This may not seem like much, but coming on the heels of a solid 25% gain in 2003, it is not a bad start.

The second quarter is off to a positive start sparked by last Friday's employment report, which saw the largest rise in non-farm payrolls in nearly 4 years. The jobs report sent stocks higher, but also sent the bond market into a tailspin based on fears of future interest rate hikes by the Federal Reserve Board. We do not want to detract from the importance of job creation, but we do want to point out that there have been dramatic rises in worker productivity as well as the fact that employment is a *lagging*, as opposed to a *leading*, economic indicator.

Conventional wisdom implies that rising interest rates are a negative for stocks. While there is some truth to this adage, we believe that any near-term rise in rates will be both gradual and modest. We further believe that, in this environment, those stocks with sound fundamentals can outperform cash and bond alternatives. It is also interesting to note that of late, many companies have raised dividends, in some cases substantially. This has been, and will continue to be, one of the many important criteria we use in stock selection. This is particularly so in the current environment where one can buy stock in companies that have double-digit earnings growth rates and that also provide a dividend yield of over 3% that can rise every year. Currently, a 5-year treasury note will barely get you the same 3%.

To be sure, we will be vigilant of changing market conditions. Aside from higher interest rates, there are any number of extraneous factors that can affect the financial markets. High energy costs, the weak dollar, elections, and the risk of terrorist acts all come to mind. We also point out that the catalyst for most market setbacks comes not from reasons bandied about in the media, but from the proverbial something from "out of left field". Our continuing efforts here will be as they have been for the past 20 years - investment in companies with strong growth characteristics and the potential for long-term capital gains.

As always, we welcome your questions and comments.

Scoreboard

DJIA -0.92%

S&P 500 +1.29%

Nasdaq -0.45%

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