

April 1, 2009

## **Are Those Crocus Bulbs I See?**

We refer to visions on Wall Street of course, and not those little flowers appearing in your yard or local gardens. About time too! After a dismal winter for both the weather and investing, everyone is ready for a change. The current recession, which began in December 2007, is showing some signs of an easing in negative momentum. Any indication of a bottom in the economy is welcome, however slight it may be. After a dismal start to the New Year, at long last the stock market saw something it liked coming out of Washington and celebrated by posting a solid gain of 8½% in March. While there is no shortage of recovery programs in the works to choose as the catalyst for the gain, or which four-letter acronym turned the tide, a good bet might be the one that precluded nationalization of the big banks. At any rate, those little spring flowers, if not mistreated by over zealous gardeners in the form of Washington based beaureaucrats, may well develop into full fledged gardens, otherwise known as an economic recovery.

That little bud on the end, the one that showed a sizeable increase in the number of sales of both new and existing homes, reverses a trend of steadily declining sales. Sharply lower prices in some areas has drawn buyers into the market, and lower interest rates on fixed-rate mortgages has brought the cost of owning a home down. Proposed tax credits for first time buyers can do nothing but help the severely depressed housing industry as we enter the critical spring selling season. Another bud popping up right next to housing is an uptick in durable goods orders for February, the most recent reporting month. This is an important piece of data, as durable goods orders are a critical component of the Index of Leading Economic Indicators, an index designed to show us where the economy may be headed as opposed to where it has been. Throw into the garden modestly improving consumer confidence combined with slightly higher retail sales, and investors have reasons to look forward to spring.

There is no denying that there are still obstacles to a turnaround in the economy, and a one or two month blip up in some key indicators does not necessarily sound an all-clear signal for the stock market, but you have to start somewhere. As we go to press with this piece, the accounting standards board is meeting to discuss mark-to-market rules that could have a huge impact on bank capitalizations. We are hopeful that revisions will be made that remove some of the onerous provisions of past practices.

Unemployment is expected to continue to rise from the current 8.1% (through February) to as much as 10% this summer. However, we must remember that unemployment is a lagging economic indicator, and usually continues to rise after the economy bottoms, then turns lower as the recovery gains a foothold. Finally, it is worth observing that expectations of future corporate profits have fallen to a level that suggests analysts have worst case assumptions built into their estimates. After the sharp decline in stock values from the October 2007 highs, any upward revisions to profit estimates could bring cash off the sidelines and into equities in a hurry.

First quarter earnings reports will be coming out soon, and we will be monitoring performance for the quarter past as well as commentary on expectations for future business. And for sure, we will be looking closely at reports on the economy in search of more crocus bulbs to add to the garden. As always, if you have any questions or concerns, call anytime.

### **1<sup>st</sup> Quarter Scoreboard 2009**

**Dow Jones: -13.3%**

**S&P 500: -11.7%**

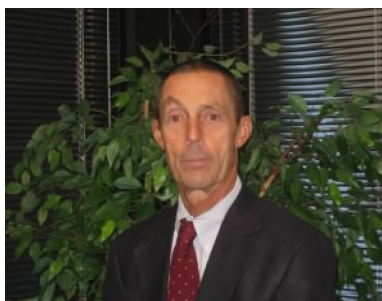
**Nasdaq: -3.1%**



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