Steeplechase Investments

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Viet Nam all over again? I think it is possible, but not probable. Surely the news reports recently have an eerie, "deja vous" feeling to them. Each day we hear about another sortie, another ambush that results in more American casualties. It is not comfortable reading, especially for those of us who have children and grandchildren that are possible recruits. There is no doubt about the seriousness of the situation. As far as the results of 9/11. I think they are still having a great impact on American society. The massive increase in budgets for homeland security and defense spending are having a drag on the economy, not to mention the high cost of rising oil prices. Air travel is certainly been impacted in a major way by all the security precautions, etc. But to my way of thinking, the use of high jacked airplanes as a mens of attacking America again is way overblown. That would be analogous to the Japanese attacking Pearl Harbor a year or two after the 1941 attack. That is not logical at all. I would be more concerned with the protection of our borders, monuments, sporting events. We are at war. And at this point, I am not really sure who is really winning. The newly declassified intelligence documents strongly suggest that Al Qaeda has infiltrated our country in a meaningful way. One document states that many have procured U.S. citizenship in our country over the last dozen years.

Anyway, the market had the correction I felt was coming. It was textbook in nature. With the key indices, S&P, NASDAQ, and Dow dropping down to their 200 day moving averages. They found support there, which is a positive. One of two things will happen going forward. The market will either go on from there and make new highs or retest those moving averages. A retest would bring the S&P down to the 1080 area (currently at 1139) and the Dow back down to the 1900 area (currently at 2052) and the Dow back down to the 10,000 area (currently at 10,442). The first quarter was choppy with the market making very little headway. That rally is not so bad. The market needed to digest the gains from the previous 11 months.

The dollar has begun to strengthen, the euro is weakening, oil is still high, and bonds have weakened. The presidential elections is fast approaching. Some doubts have been introduced into that arena which conversely has an impact on the stock market. Mr. Heinz (John Kerry) wrapped up the Democratic nomination very quickly which adds uncertainty to the marketplace. But with the most recent jobs report showing robust hiring in the first quarter, his march to the white House has been slowed if not halted altogether. If the May and June unemployment figures resemble the April report , the party <u>will</u> be over for Mr. Heinz and the Dems.

The small cap out performance in the stock market is beginning to run out of steam. That current cycle is 5 years old at this point and would be considered "long in the tooth". High quality, well managed larger companies are where are putting most of our money. Of the thirty or so stocks we won, 21 of them are dividend payers. Four of the five new purchases we have made in this correction pay nice dividends. We still have a market weighting in tech stocks. But we have reduced our tech exposure by almost 50%. We are in a more cautious mode at this point. Our equity exposure has not been reduced. We have simply rotated out of the higher beta (read riskier stocks) into the safer havens for now. Three of our holdings have been added to the Dow (AIG, Pfizer, and Verizon). This is a positive for the Dow and for these companies. Because of their financial strength, they should help smooth out the Dow.

The second quarter of the year is usually not a great one for the market averages. We begin to enter the summer doldrums. But you never know with the cross currents going on in the economy and political landscape. Earnings season has been pretty positive. The next important date for the stock market will be May 7th when the unemployment report is issued.

April 15th is just days away, yuk!

Happy trails to you till we meet again"

–Ed