

# summaries



the official newsletter of sigma investment counselors

September 2009

## "I've got to admit, it's getting better, a little better all the time."

Given the re-release of The Beatles' music and recent economic data that has been published, the title of this month's Sigma Summary seems apropos. On the other hand, given the constant barrage of negative news and continued job losses, do we really believe it's getting better?

In trying to answer this question, there are several different perspectives from which one might form the basis for such a determination. First is an assessment of one's personal life. For example, are you better off today than at the beginning of the year? Do you currently have the means (cash flow) to pay the bills and maintain your lifestyle in the way in which you have become accustomed? Or, has a layoff or pay cut impinged on your lifestyle and altered your purchasing habits?

The next step to gain perspective is by looking beyond your own back yard to those around you. Are the people you know and interact with on a daily basis able to make ends meet in this economy and do they continue to consume as they have in the past? Or, are they struggling to meet their monthly payments, cutting back on activities in which they might otherwise engage?

The official national unemployment rate hovers just under 10%. However, many say the real unemployment rate is closer to 15-16% when one includes those who work more than one part time job and those who have given up looking are taken into consideration. In addition, a recent survey indicates 40% of those polled are concerned that they may lose their job. This constant fear suggests that

many consumers are going to be reluctant to open their purse strings on discretionary items, forestalling the hoped for recovery.

The third perspective is based on economic data that is released on a regular basis from a variety of sources. This information provides us with a picture of the overall economy, both domestic and globally. From this, with the help of the news media and financial experts who interpret the data and provide commentary on information being released into the public forum, we are provided with a global perspective on the state of the economy. Hence, we have a picture of what is going on in the rest of the country and the world. This information, while we can't see it firsthand, should also assist us in discerning whether things are getting better or not.

Clearly, it is difficult to see any signs of recovery in the Midwest. Instead, we are bombarded with news regarding plant closings, rampant foreclosures, weak real estate prices and high unemployment. But beyond the rustbelt, there are signs that the economy is starting to show signs of improvement. Interestingly, in some circles, the word improvement simply represents a slowdown in the rate of decline as opposed to actual positive movement. But this trend and anticipation of further improvement has sparked an impressive rally in the equity markets since early March. Bond prices have also soared as credit spreads have narrowed.

Given the severely depressed levels of the economy in the fourth quarter of last year, we expect that the data released over the next two quarters will continue

local independent personal accessible  
interactive creative local independent personal  
knowledgeable thoughtful ethical experienced

to show improvement on a year-over-year basis, albeit from a very low base. The question, as always, is where do we go from here? Has the market rally already incorporated all the good news we might get for the next several quarters?

At Sigma, we dedicate significant thought and dialogue to this tactical analysis on an ongoing basis. Based on the economic and fiscal policies that have been put into place, various economic sectors, industries and companies will begin to emerge as offering the best opportunities for improvement. Stating the obvious, the key is to not only identify those companies that have created a lower cost structure that can be sustained for a prolonged period of time and/or can grow revenues on a persistent basis, but also identifying investment opportunities that have not been fully uncovered by other investors.

Investment opportunities can also be uncovered based on strategic issues as well. For example, the economic environment and regulatory activities over the past year have created seismic shifts in the economy and laid the foundation for the emergence

of new long-term trends. Examples of some of these issues we have been addressing include how the fiscal and monetary policies will affect the long-term growth opportunities in the United States versus other developed countries versus emerging markets. We are also questioning the potential for inflation and deflation over the next few years and whether the U.S. dollar will continue to fall relative to other currencies. Is now the time for a meaningful investment in commodities or real estate? As we work through these strategic issues and further develop our expectations for the future, we need to insure that clients' portfolios are positioned to both adapt to the changing environment and benefit from the opportunities those changes create.

We recognize the significant trust clients place with us as stewards of their assets. While we will not always be perfectly accurate in our predictions, the dialogue and analysis, as highlighted above, are key parts of the disciplined and rigorous investment process we at Sigma employ as we exercise our fiduciary responsibilities.

The views in this publication are as of September 2009 and are for informational purposes only. The information presented in this publication is not intended to provide investment advice. Keep in mind that each sector of the market entails risk and statements concerning financial market outlook are based on current market conditions, which will fluctuate.

**Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives.**