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summaries

SIGMA INVESTMENT COUNSELORS

the official newsletter of sigma investment counselors

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Happy New Year!

Welcome to Denise M. Farkas, CFA

Sigma Investment Counselors, Inc. is pleased to welcome Denise M. Farkas as Chief Investment Officer (CIO), replacing Roger Steed, Sigma's former CIO. Roger left Sigma in early January 2007 to pursue other opportunities. Roger remains a good friend of the firm and we wish him much success.

Denise has nearly 25 years of investment research, portfolio management, and credit analysis experience. Prior to joining Sigma, Denise served as senior vice president and Director of Research at Spero-Smith Investment Advisors, in Cleveland, Ohio. Her primary responsibilities there included directing the investment research process and supervising the efforts of the investment management team.

Denise received a Bachelor of Business Administration degree from Emory University in 1981 and a Masters of Business Administration from Case Western Reserve University Weatherhead School of Management in 1985. She became a Chartered Financial Analyst (CFA) in 1991.

In September 2005, Denise was appointed by the Ohio Senate President and Speaker of the House as an Investment Expert to the Ohio Bureau of Workers Compensation Oversight Committee. Denise serves as Chair of the Audit Committee and as a member of the Investment Committee.

Denise was a member of the Board of Governors for the CFA Institute (formerly the Association for Investment Management and Research [AIMR]) from 1999 through August 2005, and served as Chair of the Audit Committee and was a member of the Board's Executive Committee. She was a Trustee of the Cleveland Society of Security Analysts from 1993-2001, serving two terms as President, 1995-96 and 1997-98.

In her role of CIO, Denise will have authority for overseeing and directing the entire investment process at Sigma, which includes formulating and executing fixed income as well as equity investment strategy, in conjunction with her Sigma colleagues that comprise the investment team. For a glimpse of her thinking, next month's Sigma Summaries will feature her commentary on the economic and market environment.

Robert M. Bilkie, Jr., CFA
President

The Economic and Market Environment

In Sum: Common stocks produced solid gains throughout the world in 2006, with few exceptions. Geo-political risks appeared to stabilize as the year drew to a close, and in fact, some might suggest that the outlook in Iran and North Korea became slightly more constructive, in a perverse way. Importantly, global economic growth was sustained without inflation. Most central banks raised interest rates at some point through the year, although these increases did not materially impact economic output. The US Federal Budget deficit shrunk materially from 2005 and versus original projections for 2006. As a result, most equity markets throughout the globe produced solid returns for 2006.

Geo-political: President Bush outlined a plan in mid January to improve security in Iraq by committing more troops. This was one of the suggestions made by the Iraq Study Group, which released its report late in 2006. It will be unclear for many months if this strategy will prove effective in stabilizing that country. Regardless of the outcome, a Democratically controlled congress has made it clear that the military efforts in Iraq will not be endless. Multi-lateral negotiations with the North Koreans towards resolving that country's nuclear ambitions are ongoing, and Iran is finding itself increasingly isolated due to its nuclear activities. Both countries find their options limited.

Economic: Economies the world over continue to register increasing prosperity. According to a recent data query on Bloomberg, LP, not a single country, of 53 reporting, showed real GDP gains of less than 1.3% (New Zealand) for the second half of 2006.

Monetary: The US Federal Reserve Board continues to hold interest rates steady, after a long period of ratcheting rates higher. The Bank of England did recently raise rates moderately, in a move that surprised most analysts. The Bank of Japan has also hinted at increases. Nonetheless, the current global interest rate environment is conducive to sustaining economic growth with moderate inflation.

Fiscal Policy: In a replay of comments from last month's newsletter, the US budget deficit continues to shrink due to strong tax collections and flat spending. Fortunately, the new Medicare drug benefit is costing less than anticipated. Sustained economic growth and controlled spending should further this progress, potentially removing a major anxiety of investors.

Equity markets: On a global basis, the major equity indexes and averages in developed and developing countries posted solid gains in 2006. According to Birinyi Associates, Inc. *Ticker Sense*, of 81 countries included in their study, 62 countries posted gains of 10% or better. In that study, Chinese stocks gained 121%, US stocks gained 13.6%, UK stocks returned 11% and Japanese issues returned 7%. Clearly, it was a solid environment for equity investments with sustained, non-inflationary economic growth and a still accommodating interest rate structure. Interestingly, and according to *The 2007 Stock Trader's Almanac*, the major domestic stock averages have not experienced a down year in the third year of a presidential term (of which 2007 is one) since 1939.

Fixed income markets: The yield curve remains inverted, with short-term rates above those of longer dated maturities. This anomalous situation should resolve itself with a resumption of a typical curve wherein short-term rates decline and longer rates remain unchanged or move slightly higher.

Robert M. Bilkie, CFA
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