

# Despite reporting losses in profits, many companies' stocks have risen. Do the markets know something you don't?

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It's easy to remain discouraged about the economy when you read headlines about declining profits again this past quarter for traditionally solid companies. But this news isn't necessarily bad. More than half of companies reporting earnings through April have actually beaten industry estimates. And, at the end of April, the market was up about 33% overall from its low in March.

History shows that a rebound in the financial markets often precedes a broader economic recovery. Investors who understand the facts behind the recent headlines should work with their Financial Advisors to re-evaluate their portfolios in order to participate in the coming recovery.

## What You Should Know:

### 1. The difference between "Earnings" and "Estimates"

Professional analysts spend considerable time researching the companies behind stock ticker symbols and making careful predictions about each company's profits for every financial quarter. These predictions, known as "estimates," often influence the way people invest.

- For many investors, performance relative to earnings estimates is a more important indicator of strength and potential for long-term success than quarterly "earnings" or profits.

- Over the past 6 months, many investors reallocated to more conservative (cash) positions and were waiting for signs of life before recommitting those assets to equities.
- If you look at the markets' performance in April, you'll see they had been trending upward prior to the first earnings reports. This is partly because savvy investors or their Financial Advisors were anticipating and seeing favorable results versus these estimates.

### 2. Watch the economic vital signs

In addition to earnings and estimates, economists watch a broad list of indicators to forecast economic health and activity. Many investors are aware of the major indicators, but not all understand the difference between leading and lagging indicators. The chart at the bottom of the next page illustrates the important relationship between these indicators and market behavior. ►

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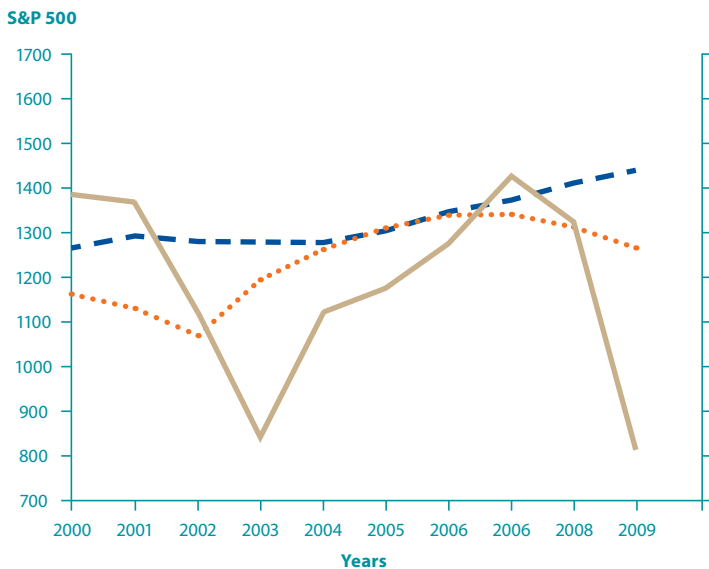
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### 3. Don't wait until it's too late

It took almost a year for the National Bureau of Economic Research to officially declare the recent downturn a recession. And by the time the media was able to officially report it, most investors agreed it wasn't news anymore. Similarly, the recent rally in the markets is a strong indicator that there are sound investment opportunities before a recovery is officially acknowledged.

### What Should You Do Now:

No one knows for certain when the economy will rebound, but most agree it may, and current indications are that it may be sooner than many believed just a few months ago. So, if you've been waiting like so many people for "good" economic news before investing again, you should call your Financial Advisor today and talk about how you can best reposition your portfolio to take advantage of the opportunities that will accompany the recovery. ■



As this chart shows, Leading Economic Indicators have anticipated the direction of major movements in the markets over the past ten years while Lagging Indicators have risen or fallen inversely during the periods following.

..... Leading Economic Indicators    - - - Lagging Economic Indicators    — S&P 500

#### Leading Economic Indicators:

- Average weekly hours, manufacturing
- Average weekly initial claims for unemployment insurance
- Manufacturers' new orders, consumer goods and materials
- Index of supplier deliveries – vendor performance
- Manufacturers' new orders, nondefense capital goods
- Building permits, new private housing units
- Stock prices, 500 common stocks
- Money supply
- Interest rate spread, 10-year Treasury bonds less federal funds
- Index of consumer expectations

#### Lagging Economic Indicators:

- Average duration of unemployment
- Inventories to sales ratio, manufacturing and trade
- Labor cost per unit of output, manufacturing
- Average prime rate
- Commercial and industrial loans
- Consumer installment credit to personal income ratio
- Consumer price index for services

The S&P 500 index is a representative sample of 500 leading companies in leading industries of the U.S. economy and is considered a large-cap index. The S&P 500 is unmanaged and direct investment is not possible. Past performance is no guarantee of future results.