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Portfolio Commentary First Quarter 2012

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"Increased inequality is a warning signal that something is going wrong."
--James K. Galbraith, economics professor and author of, Inequality and Instability:
A study of the World Economy Just before the Great Crisis.

"If you pitch a tent on Wall Street, you go to jail. If you bring the world to the brink of economic collapse, you get a big check."

"Members of Congress ought to have to wear suits emblazoned with the names of their donors, much the way NASCAR drivers sport their sponsors' logos."
-Barry Ritholtz, Fusion IQ

"The basic function of the market has been corrupted into what I view as a self-serving carnival of speculation."
-John Hussman, Ph.D. Economics, Mutual Fund manager

"Financial CEO pay rose from about $5 million a year in 1998 to about $12 million in 2010. The stocks of their companies have, on average, fallen by a third."

"If capitalism is working, people have a pretty fair shot. If you don't create value, you don't succeed. But capitalism involves a whole lot more transparency and accountability than we've had."
-Michael Mayo, author and banking analyst

In my last letter I wrote about acres of diamonds waiting to be gathered and of anticipated upside surprises in 2012. The first quarter of 2012 just closed with the best first quarter since 1998. The DJIA ended the quarter up +8.98%, the NASDAQ +19.50% and the S&P 500 +13.06%. Our accounts, reflecting a full range of investment postures, are up an average of 13.1%. We're happy with the results thus far, but we continue to sit on needles. The bad news bears still abound harping that the China slowdown and the European crisis will drag down global growth. Additionally, politicians seeking office, continue to paint a dismal picture as we approach our November elections.

Remember that we see the world as we are, not as it is. I continue to hold a more optimistic outlook than the grim reapers. I will present a few tidbits of information, that we don't hear frequently in the newscasts, to support my positive posture. This must be tempered with the fact that we are approaching the end of the "best six months" of stock market action (October through May) and should experience the normal summer weakness as we work our way through to October.

Uplifting facts are:

1. Our Leading Economic Indicators increased for the fifth consecutive month in February as The Conference Board stated that the "consistent signal for the leading series suggests that progress on jobs, output and income may continue through the summer months, if not beyond";
2. The Coincident Economic Index increased also in February;
3. American workers are receiving an additional $10 billion monthly as a result of the reduction in the payroll tax rate. This is money to spend;
4. Manufacturing production advanced for the ninth time in the past ten months in February;
5. Industrial production has risen 4.0% on a year-over-year basis. This rate is above the average of the past six economic expansions;
6. Private nonfarm payrolls have risen for 24 consecutive months and employment is tracking at a better recovery rate than the 2001 jobless recovery;
7. Temporary employment, a precursor to full employment, is at its highest level in almost four years;
8. The manufacturing workweek rose to 41.9 hours. Its best reading since 1998;
9. The Monster Employment Index rose 7.5% in February, the third highest gain on record. All 28 metropolitan markets recorded stronger job demand;
10. The ratio of equity to assets for the U.S. Commercial banking system is at the highest level since 1938. There is more capital and liquidity in the system than there was in 2008;
11. The S&P 500 is trading near 14.1 times earnings. This is the lowest valuation of any 52-week high going back to 1989;
12. Optimism is hard to find, as investors pulled another $2.13 billion out of stocks in January after $135 billion throughout 2011 (the second-highest withdrawal rate after 2008). 2011 marked the fifth year in a row of more withdrawals from mutual funds than purchases, the longest streak of withdrawals since 1984. This is good for higher stock prices;
13. For the first time since 1955, U.S. Government spending as a percentage of GDP has fallen year-over-year;
14. U.S. Exports are on pace to double within five years (a goal of President Obama in his State of The Union Address in 2010).

The clouds of uncertainty continue to hover, but we are climbing out of the morass we fell into four years ago. As a nation, we must focus on restoring confidence and trust in our financial markets and leveling out the great disparity of wealth and opportunity that has grown up within our society. I continue to believe that we will and that we are. I will use the anticipated market weakness to add to positions that we find attractive for the long-term and continue to collect our monthly dividends throughout the periods of market weakness. The dramatic and surprising rise in equity prices since the beginning of the year underscores our time proven method of retaining a close to fully invested position during times of market turmoil. Our overall returns, far surpassing those of major indexes, since March 9, 2009 (the low point of the 2008 debacle) builds our confidence in our work.

We are enclosing our reports for the first quarter performance and for the three year period beginning March 9, 2009. The S&P 500 has been up 100% since that infamous date. All of our portfolios (with the exception of a few which were heavily invested in poorly performing mutual funds) have surpassed this index. Thank goodness! Such results give us the encouragement to continue our work and a renewed sense of confidence when the markets weaken.

Please call should you have any questions or wish to discuss your investments. Until next time, we thank you for your continued business and confidence.