ANALYTICS INVESTMENT ADVISORS, LLC

Mid-Year Assessment

Richard C. Hoyt
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Last year on July 7th I wrote: "The S&P 500 declined 13% from May 1st to June 30th", however, "in my opinion the stock market is oversold and undervalued, and thus likely to rebound and trend higher between now and the end of the year". In retrospect, the Dow Jones 30 Index rose 16.0%, the S&P 500 increased 18.6%, and the Nasdaq improved 22.9%. The remainder of my commentary cited retail sales, non-defense capital goods, S&P 500 profits, GDP growth, and manufacturing, as some of the reasons for that optimism.

This year the S&P 500 sold off for eight straight weeks, after hitting a three-year high in May, the longest losing stretch since October 2002. The 8% decline from peak to trough was less than half of the 17% dive the same time last year. Does this sound familiar?

Worries about violence in the Middle East and North Africa, the European debt crisis, inflation in emerging markets, a sluggish U.S. Economy, the U.S. debate regarding the debt and deficit crisis, and Japan's tragedy triggering a global supply-chain disruption, have all contributed to an atmosphere of economic uncertainty and consumer pessimism. I believe that, although markets may be choppy in the near term, the following facts suggest improvement in the coming months.

• Corporate balance sheets are healthy in the U. S. and overseas, valuations remain attractive, and yields on many dividend paying stocks are higher than investors can get from bonds. Per share profits in the S&P 500 are forecast to climb 17% in 2011, to $104.73 per share, up 8% from $96.92 forecast in January.

• Of the 497 companies in the S&P500 reporting Q1 2011 earnings, 72% beat estimates. The S&P 500 is currently trading at 12.4 times forward 12-month earnings. This compares to a mean price-earnings ratio of 16.4 over the past 57 years.

• Global earnings per share (including the U.S.) are projected to increase 18% in 2011, 11% in 2012, and 9% in 2013.

• The average bull market since 1947 has lasted 5.7 years (68 months), suggesting we are less than half way through a normal cyclical rebound (see Commentary: "Current and Past Markets", May 2, 2010) .

• In spite of a growing federal debt which currently stands at $14 trillion, this is a long-term, not short-term issue. While many have cautioned about the inevitable debilitating nature of this phenomenon, it appears that Congress and the White House are finally taking this issue seriously, and the recently orchestrated actions to reduce the profligate spending and ultimately balance our finances should be bullish news.

• Using relative strength as a basis for ranking ETF return potential (See Commentary: "Buy – Don't Hold (Part 2), January 15, 2011) the technology, energy, health care, large cap growth, and industrial sectors look to be the most promising, and will likely lead a stronger market between now and the end of 2011.