strathbridge ASSET MANAGEMENT

Commentary

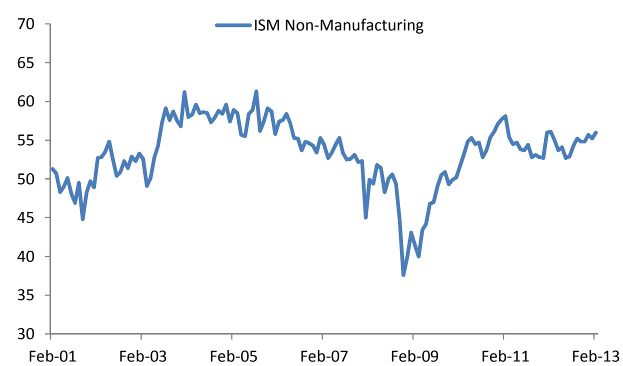
March 15, 2013

U.S. equity markets are on wheels. The DOW has made an all-time high, the S&P 500 nearly so, and NASDAQ a new 12 year high. In addition stock markets in Germany, France, U.K. and Japan have also made new recovery highs.

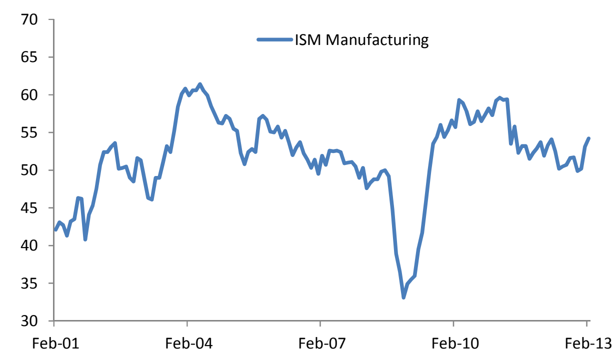
Let's take a closer look at some statistics as they pertain to the U.S. market. If we define a bull market as one that rises more than 20% without a correction of 20%, there have been 25 bull markets since 1929. The current run, since March 2009, is the sixth strongest and the eighth longest in duration. In the short term, the S&P is up about 9% so far this year. A continuation of that pace would result in a 60% return for the year, which is highly unlikely. There are no signs to suggest a meaningful correction at this time, but a moderation in the advance seems inevitable.

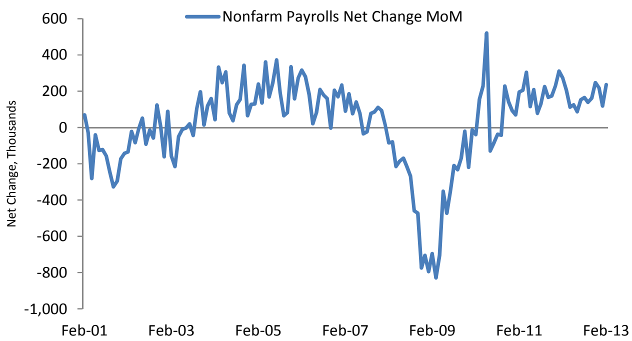
We see three main reasons for a continuation of positive stock markets; first, despite continuing causes for serious concern, politically and economically we are in a better position today than in any of the last five years. At least we have backed away from the abyss. Secondly, even when negative news comes out, investors believe/know that the world's central banks will step into the breach and provide whatever liquidity is necessary. All major central banks are on board. The U.S. led the parade; the U.K. close behind; Europe since Draghis' speech last summer "it will be enough"; and most recently and aggressively Japan. It seems good news is good and bad news is too. And thirdly, equities are better than the alternatives. Government policy of "financial aggression" keeps interest rates so low that fixed income is unattractive, leaving stocks as the only hope to beat inflation and grow one's wealth. We are seeing signs of capital flowing to equity funds after many years of withdrawals.

An old Asian proverb sums up the world's political and social situation: "The forest may change, but the monkeys remain the same". The recent Italian election stands out as an example, and would be almost comical if not for the risk of fracturing the European Union. The circus that is Washington continues as the country stumbles from one crisis to another with short term solutions barely holding things together. The U.S. Senate has not been able to pass a budget proposal in 4 years. Each budget in that time has been cobbled together by negotiations between the White House and senior members of Congress. We sincerely hope some "grand deal" on tax and entitlement reform is in the offing this year, and that democrats and republicans can find some common ground.



Economically, as we mentioned above, the absolute numbers remain uninspiring in the U.S. and weak in Europe, but relatively there is improvement globally. It should be noted there have been recent signs of stronger growth in the U.S. The Institute for Supply Management ("ISM") reported its February non-manufacturing index at 56, up from 55.2 in the previous month and beat estimates of 55. The ISM Manufacturing Index came in at 53.1, rising for the last 3 months. A number above 50 for these indices indicates an expansion in activity. We were also encouraged by the non-farm payroll employment, increasing by 236,000 in February which edged the unemployment rate down to 7.7%. As we have pointed out before, there is much room for expansion if confidence can be re-established. We need stronger growth to solve the world's debt problems and move markets significantly higher. Central banks have shouldered the load to this point. Now real growth must become a catalyst.





Despite the many concerns; equity markets look strong; climbing not just a "wall of worry" but what seems more a "mountain of crises".