

1st Quarter 2010 Commentary

Commentary by John Cheshire, Vice President



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From the elevated levels of the stock market at quarter end, the horrific lows of March 2009 seem but a distant memory. In fact the markets act as if the panicked selling never took place as fear has been replaced by greed. With reflection one can even find great amusement in the ever changing psychology of the market, at least those of us who did not cave to selling at lows in abject fear.

The markets have rebounded on solid fourth quarter 2009 earnings, and the anticipation of a good first quarter for 2010. Also, the closely watched lagging economic indicators seem to confirm that the bottom has passed and that we are now in recovery. What is not clear is the strength of that recovery, and we believe that the markets future direction is hinged on that very level.

Consensus views are for a long slow recovery. The stock market as a leading indicator is pointing to more strength and a faster recovery. Once again the markets direction is likely tied to that pace. But regardless one cannot be bearish watching the economy's pace of recovery.

We do admit a feeling of over exuberance in the rapid pace of the markets ascent. In fact it seems giddy at times. Yet valuations, though full, are still within reason, especially given the level of interest rates. The list of S&P companies whose dividend yields exceed the yields on their bonds is a very long one. Though trailing P/E's look stretched, if one considers the depth of earnings compression and looks forward to modest growth, the markets are very fairly valued.

Looking forward for investment opportunities we believe that the highest quality large cap multinational brands are woefully undervalued versus the market. In fact, this gulf of value is at an extreme most investors have not seen. Domestic blue chips are the most attractive of asset classes as a group. We still find many obvious values even after the market run up, focusing on high quality and low valuations.

If you have questions or would like to set up a meeting with our team, contact John Cheshire at 859.389.5308 or cheshijo@ctbi.com