

Looking to the Future

Commentary by John Cheshire, Vice President



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If an investor had spent the first six months of 2009 in a remote location, with no access to news or the hoopla of the daily circus of the financial markets, upon their return they would upon initial impression think nothing much had happened during that time. The stock market is roughly where it began the year, its single digit returns accounted for as much by dividends as appreciation.

However, for the active equity market participants, the six months has contained a gut wrenching freefall, followed by an exuberant and powerful rally retracing all that was lost. During the bottoming, the market reached price levels not seen since the middle of the last decade which resulted from a harsh and fear laden liquidation, partially margin call driven, partially sentiment. The rally back since March 9th we would argue has been an adjustment back to at least a rational level of extreme pessimism.

So, in essence, the 30%+ rally we have had since the March lows may not be that newsworthy or important. The market still stands at one of its worst 10 year records in history. But at least it seems to have stabilized, with credit markets thawing, leading indicators bottoming or even bouncing up, and commodities rebounding from their lows. The sheer joy of having a positive number in the performance column for the year's performance cannot be underscored enough after the ravages of the eighteen month bear. Though surely to be punctuated by some harsh corrections, the markets feel as if they may well repeat the history of all prior sell offs and return to a more normal state. Maybe with some nice gains for those who have braved and stayed the course.

We do believe that there will be strong performance either this year or next in equities as markets return to at least a more normal valuation outlook and sheds the valuations associated its extreme pessimist outlook. The markets are leading indicators and amazingly adept at discounting the future with accuracy. The stock market has long rallied prior to recession end and it appears that may well be in sight. Though long term structural challenges abound, one has to be constructive on the conclusion of the crisis we endured.

As a result of the massive changes in our economy and upon review of our holdings and the opportunities we see presented, we have repositioned our client portfolios for the new market realities. We are excited about some of low entry valuations we are purchasing stocks, as well as new themes we think present good growth opportunities.

In the last two quarters we have also begun to buy corporate bonds to capture the historically wide spreads and we have purchased small cap stocks to harness their traditional bounce from market bottoms. We remain constructive on ending the year with strong positive returns and hopefully with less excitement than the first half of 2009.

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

