



**CONCORD ASSET MANAGEMENT**  
BUILDING YOUR TRUST

# RESEARCH REPORT

*April, 2009*

**Market Overview & Strategy Comments:** *This Economic Downturn Looks Cyclical, Not Secular, and That's an Important Distinction For Investors.*

The question on a lot of minds these days is, naturally enough, "How serious is the current downturn?" Is this a severe recession, or evidence of serious secular problems that could trouble the economy for years? We turn to the objectivity of traditional economic analysis to help us look at this issue.

<u>Key Statistics</u>	<u>Current</u>	<u>Change Since Previous Month</u>	<u>2009 Change</u>
Dow Jones Industrial Average *	7608.92	+7.7%	-13.3%
S&P 500 Index *	797.87	+8.5%	-11.7%
S&P 500 Ave. P/E Ratio **	13.4x	+1.1x	-0.5x
NASDAQ *	1528.59	+10.9%	-3.1%
1 Year Treasury Bill Yield	0.57%	-15 bps	+20 bps
10 Year Treasury Bond Yield	2.71%	-31 bps	+46 bps
30 Year Treasury Bond Yield	3.56%	-15 bps	+87 bps
Municipal Notes - 1 Year Yield	0.90%	-15 bps	-25 bps
Municipal Bonds - 10 Year Yield	3.60%	+15 bps	-50 bps
Reuters/Jefferies CRB Futures	\$220.40	+4.2%	-4.0%
Gasoline NY RBOB (\$ per gal.)	\$1.40	+9.3%	+38.9%
Natural Gas (\$ per MMBtu)	\$3.78	-10.1%	-32.8%
Gold (\$ per troy oz.)	\$922.6	-2.0%	+4.4%

\* price only \*\* based on 2009 earnings estimates.

The Reuters/Jefferies CRB Futures Price Index is an arithmetic average of commodity futures prices with monthly rebalancing.

Gasoline NY RBOB price excludes local, state and federal taxes (the "wholesale price").

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Securities are identified for illustrative purposes only. This should not be construed as a recommendation to purchase or sell any securities.

**Market Overview & Strategy Comments:** *This Economic Downturn Looks Cyclical, Not Secular, and That's an Important Distinction For Investors.*

The question on a lot of minds these days is, naturally enough, "How serious is the current downturn?" Is it a worse-than-usual recession, or evidence of serious secular problems that could trouble the economy for years? For the answer to this question, it is helpful to turn to the objectivity of traditional economic forecasting. Economic analysis can be challenging due the particularly complex crosscurrents at work in today's economy, but it is still helpful to introduce some much needed objectivity into the current highly emotional market environment.

*Why is defining the downturn important?* Right now, the markets seem to be discounting a severe secular downturn that is far outside a traditional market cycle. But if we are really in a traditional, albeit deep, cyclical correction, then stocks and real estate should provide solid returns over the next few years as investors realize they have overreacted and start to consider the possibility of a cyclical upturn.

How do we differentiate whether a downturn is cyclical or secular? No analysis can be 100% accurate, but there are some general factors which can help define a downturn, including: 1) population growth, 2) availability of natural resources, 3) a skilled labor pool, 4) reasonable availability of credit and equity investments, 5) productivity growth, 6) a government "in tune" with the economy from both a fiscal and monetary perspective, and 7) a lack of unproductive expenses such as war, natural disasters and epidemics.

As we review this checklist we can see that our population is still growing, although reduced immigration is a slight negative. Natural resources at least for now seem abundant, there is no shortage of skilled labor, our stock and bond markets appear to be functioning again after the credit freeze in late 2008, productivity is likely to grow as companies tighten their belts, our government is doing what it can to help out with fiscal and monetary stimulus, and recent military actions seem to be winding down. Areas of concern include increased government intervention in business, the growing federal deficit and a slight turn against free trade here and abroad.

*In short, although the economy is clearly troubled, we still have the same abundant resources and the same supply of inventive, creative and entrepreneurial Americans to use them.* Painting a gloomy picture of our economic future is popular at the moment but not very objective. Our economy is undoubtedly struggling but the basic resources that lead to a functioning, viable economy are still there.

Yet while we believe the secular outlook for growth remains intact, we are still in the midst of a severe cyclical downturn. The middle class can no longer supplement earnings with home equity loans, credit cards and interest-only mortgages. Almost overnight we have too many stores, too many car dealers, too many office buildings, too many banks, etc. *But as recent data highlights, consumer spending hasn't disappeared -- it's just resetting at a new, income driven, not debt driven, pace.* At some point, we believe the excesses will be gone and growth should resume -- healthier, more sustainable growth.

Furthermore, our economy has a long history of reinventing itself after periods of economic turmoil. *Who could have expected the strong growth starting in 1982 after the grim oil shocks and stagflation of the seventies or the boom that began in early 1990?*

For investors, viewing today's conditions as being cyclically weak rather than a deep-seated secular failure means there are going to be clear winners and losers coming out of this recession. Of course, our existing positions remain subject to market risk, but throughout the downturn phase we have been correctly positioned to avoid the sectors which have suffered the most. We significantly reduced financial exposure long before the worst of the decline. We avoided the REIT and housing sectors, which have fallen on very hard times. We had significant exposure to treasuries and other high quality bonds which have done fairly well. *Going forward, we continue to avoid companies with problems that are likely to plague their performance when the overall economy improves, such as:*

- 1) Heavily indebted companies who are issuing new stock to replace debt and/or offset losses that will significantly dilute future earnings power.
- 2) Companies eliminating their dividends, thus losing large support for their stock.
- 3) Heavy cyclicals that will likely see end market demand remain weak for the foreseeable future as excess production capacity now exists around the world.
- 4) REITs and other companies exposed to overcapacity in retailing, office space, etc.
- 5) Junk and other lower quality bonds.
- 6) Companies exposed to changing political winds.

*In contrast, quite a few companies should emerge from this downturn in a stronger competitive position and with the potential to lead the market's rebound. For instance:*

- 1) Light cyclicals that are more exposed to some of the government financed infrastructure spending here and abroad, such as *ABB Ltd., Danaher* and *3M*.
- 2) Health care companies well diversified by product and geography that should see relatively stable demand for their essential products; *Johnson & Johnson, Novartis* and *Becton Dickinson* are three examples.
- 3) Multinationals exposed to faster growth regions, such as *Diageo, Colgate, MasterCard, Coca Cola* and *Google*, as well as the exchange traded funds for foreign and emerging markets.

In general we are invested in financially strong companies able to make growth-enhancing investments during the downturn. *The current recession is one of the worst in a century, but still appears cyclical, not secular, and this means we are likely closer to the end of the worst part of its impact on the markets, not the beginning.* But it's also fair to say that many of the companies who were successful during the last expansion are not going to be around for the next upturn. And while current portfolios have suffered during this downturn, we have avoided the worst aspects of the decline, and we believe we are well positioned for the next upturn.

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## CORE HOLDINGS LIST FOR 2009

Source: FactSet, First Call, Value Line, Bloomberg & CAM Estimates.

			Recent	2009	2010	2009	2010	Est EPS	P/E to	Market		Div
April 1, 2009	<u>Company Name</u>	<u>Ticker</u>	<u>Close</u>	<u>EPS</u>	<u>EPS</u>	<u>P/E</u>	<u>P/E</u>	<u>Growth</u>	<u>Growth</u>	<u>Cap(\$mm)</u>	<u>ROE</u>	<u>Yield</u>
	<b>Standard &amp; Poors 500</b>	SPX	797.87	\$59.52	\$72.32	13.4x	11.0x	8%	-	6,927,615	14%	2.7%
<b>Financials:</b>	Berkshire Hathaway Cl "B"	BRK/B	2820	\$197.15	\$217.80	14.3x	12.9x	10%	1.3x	41,595	4%	0.0%
	MasterCard	MA	167.48	\$10.41	\$12.26	16.1x	13.7x	16%	0.8x	16,499	10%	0.4%
<b>Consumer Staples:</b>	Coca Cola	KO	43.95	\$3.15	\$3.38	14.0x	13.0x	8%	1.7x	101,729	28%	3.2%
	Colgate Palmolive	CL	58.98	\$4.21	\$4.64	14.0x	12.7x	10%	1.2x	29,507	93%	2.6%
	Diageo Plc ADR	DEO	44.75	\$4.16	\$4.59	10.8x	9.8x	8%	1.3x	27,964	40%	4.4%
	Fomento Economico Mexico	FMX	25.21	\$1.91	\$2.22	13.2x	11.4x	14%	0.8x	5,448	14%	1.5%
	H.J. Heinz	HNZ	33.06	\$2.79	\$2.98	11.8x	11.1x	9%	1.2x	10,402	45%	1.5%
	Walgreen Co.	WAG	25.96	\$2.13	\$2.39	12.2x	10.9x	12%	0.9x	25,745	18%	1.8%
<b>Health Care:</b>	Becton Dickinson	BDX	67.24	\$5.06	\$5.61	13.3x	12.0x	12%	1.0x	16,118	24%	2.1%
	Johnson & Johnson	JNJ	52.60	\$4.50	\$4.90	11.7x	10.7x	7%	1.5x	145,578	30%	3.1%
	Medtronic, Inc.	MDT	29.47	\$3.11	\$3.43	9.5x	8.6x	11%	0.8x	32,985	20%	2.5%
	Novartis AG	NVS	37.83	\$3.99	\$4.41	9.5x	8.6x	7%	1.2x	100,008	16%	2.8%
	Zimmer Holdings	ZMH	36.50	\$3.88	\$4.29	9.4x	8.5x	11%	0.8x	8,114	15%	0.0%
<b>Consumer Discretionary:</b>	Staples, Inc	SPLS	18.11	\$1.14	\$1.33	15.9x	13.6x	14%	1.0x	12,946	14%	1.9%
	Target Corp.	TGT	34.39	\$2.44	\$2.70	14.1x	12.7x	13%	1.0x	25,884	15%	1.9%
	Toyota Motor Co. ADR	TM	63.30	(\$1.44)	\$0.90	-	70.7x	3%	23.6x	109,129	14%	4.5%
<b>Technology:</b>	Cisco Systems	CSCO	16.77	\$1.11	\$1.14	15.1x	14.7x	13%	1.1x	97,887	24%	0.0%
	EMC Corp.	EMC	11.40	\$0.70	\$0.83	16.3x	13.8x	12%	1.2x	22,942	11%	0.0%
	Fiserv, Inc.	FISV	36.46	\$3.62	\$4.08	10.1x	8.9x	16%	0.6x	5,688	14%	0.0%
	Google	GOOG	348.06	\$18.83	\$21.68	18.5x	16.1x	22%	0.7x	83,816	17%	0.0%
<b>Industrials:</b>	3M Co.	MMM	49.72	\$4.01	\$4.33	12.4x	11.5x	13%	0.9x	34,490	32%	3.0%
	ABB Ltd. ADR	ABB	13.94	\$1.18	\$1.04	11.8x	13.4x	10%	1.3x	32,380	28%	0.0%
	Danaher Corp.	DHR	54.22	\$3.69	\$3.85	14.7x	14.1x	13%	1.1x	17,280	14%	0.2%
	General Electric	GE	10.11	\$1.05	\$0.99	9.7x	10.2x	9%	1.1x	106,853	16%	7.2%
	United Parcel Service	UPS	49.22	\$2.83	\$3.32	17.4x	14.8x	11%	1.4x	34,048	32%	3.3%
<b>Energy:</b>	Apache Corp.	APA	64.09	\$3.26	\$7.30	19.7x	8.8x	8%	1.1x	21,461	4%	0.8%
	Petroleo Brasileiro S.A. ADR	PBRA	24.50	\$2.05	\$2.41	12.0x	10.2x	7%	1.5x	45,334	24%	4.5%
	Sasol LTD ADR	SSL	28.95	\$3.24	\$3.66	8.9x	7.9x	15%	0.5x	18,439	32%	8.1%
<b>Telecom Services:</b>	America Movil ADR	AMX	27.08	\$2.97	\$3.43	9.1x	7.9x	9%	0.9x	28,129	46%	1.8%
	China Mobile Hong Kong	CHL	43.52	\$4.27	\$4.38	10.2x	9.9x	15%	0.6x	174,559	28%	3.9%
<b>Transportation:</b>	Kansas City Southern	KSU	12.71	\$1.16	\$1.56	11.0x	8.1x	20%	0.4x	1,164	10%	0.0%
<b>Exchange Traded Funds:</b>	iShares MSCI EAFE Index	EFA	37.59	-	-	-	-	-	-	24,223	-	4.6%
	iShares MSCI Emerging Mkts	EEM	24.81	-	-	-	-	-	-	21,324	-	1.9%

0% weighting in utilities and materials.

The above is a list of common stocks currently held in clients' portfolios. Not all stocks are held in all portfolios for various reasons. Upon request we will furnish a list of all equity recommendations made within the past twelve months. This list includes the name of the security, date and nature of the recommendation, price at which the recommendation was acted upon, and the current market price of the security.

It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list.

Please contact Mickey Herst for a copy of the list.