Leigh Baldwin & Co.

Investment Brokerage

It was Henry David Thoreau who said, “Things do not change; we change.” Risking exclusion from Walden Pond, there are still some things that do change. Think of the weather, teenage moods, Oprah’s weight, stocks, and bonds. But in 2010 so far, even though we have seen fluctuations, stocks and bonds have not changed dramatically. In fact, after the first eight months of the year stocks are nearly flush with where they started the year, even with sell-off during the last two weeks of August. Bonds too are stuck, with short term rates virtually at zero and in a very narrow range of change. What is an investor to make of this? And more importantly, is there anything we should be aware of for the next four months that we can take advantage of.

The truth is that in 2008, the markets suffered their worst sell-off in seventy years and after a dramatic rally in 2009, observers could argue that the markets are due for a pause. With government stimulus spending working its way through our economy, businesses have certainly gained some footing. As a result of the public stimulus though, business owners are fearful of the reach of government and that may help explain the jobless recovery and less than tepid growth. For stock investors, Wall Street has always hated uncertainty, and that may explain disappointing stock prices over the near term. Taking it one step further, as the government becomes more involved in the auto industry, insurance, health care, and real estate through direct ownership of once great American companies, it is hard to blame business leaders for their lack of investment in anything, including people.

Even with this cloudy backdrop, investor opportunity may be rising. Stocks have not moved for over ten years based on the indices, but corporate earnings have moved significantly higher for many multi-national companies over the same time period. If you believe, as we do, that investments should be based on a company’s ability to generate and grow profits/dividends over the long haul, select stock investments look very attractive. If you believe, as we do, that growth is in part a direct result of population trends and patterns, then looking outside of the US to companies around the world is very attractive. Finally, if you believe, as we do, that there is a bubble brewing in the bond market as the risk/reward for owning bonds and bond funds is turned upside down.

The odds of a double-dip recession are historically low, even as talk of this possibility heats up. We continue to search for great investment ideas where companies are profitable and have clear long-term strategies for growth. These companies are out there. A second, more violent “flash crash” like we experienced in May is certainly possible, but it also may create incredible opportunities for patient investors. As we head into the final months of 2010, it is important to continue searching for great companies and mutual fund investments while simultaneously keeping your radar tuned to changes in the bond market. The biggest positive change may be a change in investor and business owner sentiment as the government takes a step back and lets the free market reign. Enjoy the fall season!

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