

# Leigh Baldwin & Co.

## *Investment Brokerage*

Miyagi the Stock Trader

The first quarter of 2012 is off to a blazing start, in a very similar fashion to the last two years, as the S&P 500 is up 12% for these three months, the best start since 1998. As the martial arts mentor Miyagi told us in the 1984 movie, *The Karate Kid* to, Wax on...Wax off...Wax on...Wax off. The markets are telling us, Risk on...Risk off...Risk on...Risk off, and during the first 91 days of 2012, the markets are definitely Risk on. Very few, if any, stock market talking heads predicted such a dramatic move at the start of the year, most notably as the Nasdaq Composite gained over 18% to lead all the major averages. All we can say is thank you for the push higher and then try to determine where we go from here.

Risk on...Risk off is a common expression currently used to describe the manic markets of the past three years. Basically, it could also be seen as a Fear on...Fear off description, essentially meaning that when dramatic headlines like the collapse of European markets, tsunamis, lowering of the US credit rating, etc subside, market participants jump into equities with abandon. Throw in the record-breaking performance of Apple computer and the Frankenstein-like rebirth of the financial sector and stocks are off to the races. And our humble opinion believes that the rally in stocks will continue, albeit at a slower pace during the rest of the year.

Stocks have been in a decade long slump, on average, while at the same time increasing their earnings significantly in many cases. That is a positive. Although interest rates have shown some life recently, the Fed Chairman is still making his case for lower interest rates into 2014, even at the risk of really hurting our economy. Also, the job picture and economic data is improving, which are also nice positives. Finally, we cannot forget that this is an election year and even if the President wins his race, the Senate could likely be taken by the Republicans and that combination is bull market news for investors.

We are positioning clients in similar themes, in particular, municipal bond funds for yield, energy stocks (which have not participated yet) for yield and growth, small regional banks for growth and yield, and various stocks and mutual funds that have had significant earnings growth over the last ten years without the corresponding growth in stock valuation. As always, we continue to monitor economic events for opportunities and risk. For now, the Risk on trade requires the discipline of Mr. Miyagi combined with the appropriateness of balance in a portfolio. Enjoy the spring season and thank you for your confidence in our firm.

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