



The Death of Conventional Wisdom?

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Dear Clients & Friends:

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Have we ever introduced you to a character known as *Conventional Wisdom*? He is quick to offer his advice on almost any subject: raising children, medical care, local politics, sports or investment markets. Over the past twelve months conventional wisdom has been dreadfully wrong in the stock and bond markets.

Little more than a year ago, the end of the world seemed a real possibility. *Conventional Wisdom* (let's call him C.W.) offered a long list of predictions that added up to a worst case scenario for the US. C.W. was gripped with fear and anger at the same time. He predicted skyrocketing inflation and interest rates, bankrupt banks and car companies, a plunging dollar and surging gold price, and expectations that it would take ten years or more for the stock market to recover its value. Dire predictions indeed! Alas, it was not to be. At least not yet.

In the past twelve months, C.W. has been frustrated by actual developments he failed to predict: The US stock market has risen 50% and foreign stocks have risen even more. Not only has inflation dropped to almost zero, futures markets predict benign inflation for more than a decade into the future. Interest rates will rise as the economy recovers, but there is no evidence yet that rates will go beyond what a normal economy can support. The US dollar has shown considerable strength in the face of all its detractors, and gold has underperformed the S&P 500 by almost 30%.

Yes, we have a way to go, but the end of the world did not happen and those who managed their investments according to *Conventional Wisdom's* advice have missed what the markets actually did:

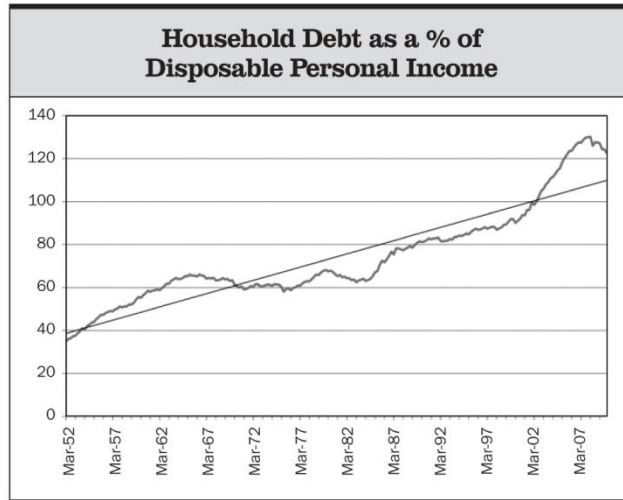
	<u>1Q</u>	<u>12-Months</u>
Dow Jones Industrial Average	4.8%	46.9%
S&P 500 Index	5.3%	49.8%
NASDAQ Composite	5.6%	56.8%
MSCI EAFE Foreign Equity	0.8%	54.4%
Barclay's Aggregate Bond Index	1.7%	7.7%

For the quarter, almost all equity categories finished well into positive territory. The overall bond market also posted a positive return with corporate bonds continuing to out perform Treasuries.

The Long Term View Is Still Dominated by Many Concerns

While we take satisfaction in the returns we've achieved for our clients over the past twelve months, we remain concerned with the macro risks in the global economy. The world continues to struggle in the aftermath of massive wealth destruction, seemingly oblivious of the need to stop the decades-long trend of expanding indebtedness that contributed to it.

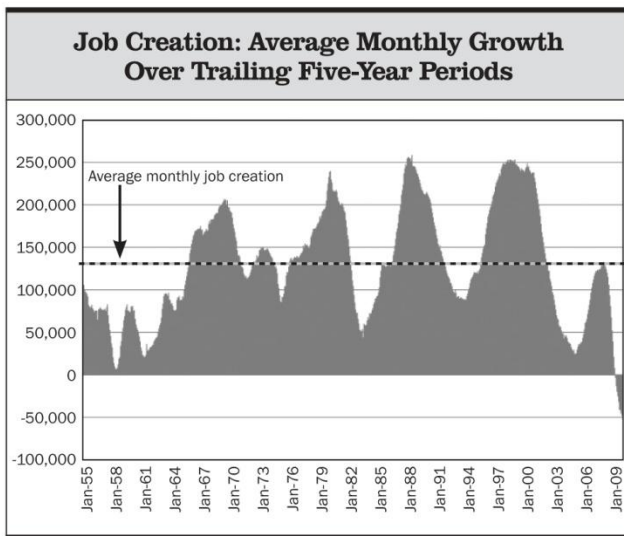
This “debt bubble” reached peak levels in the last decade and helped precipitate the severe credit crunch of 2008. Since both personal and public debts are advances on future consumption, the de-leveraging process will most likely result in reduced spending, hampering economic growth. Therefore, C.W. predicts the US is in for a sluggish economy for many years to come.



Debt is coming down, but is historically very high relative to income. Source: Federal Reserve.

C.W. also notes that recent signs of an economic recovery mostly stem from government stimulus spending and corporate inventory rebuilding from the panic-induced depletion of inventory stock. Since both influences are temporary, normal production and other economic activity must accelerate to propel long-term economic growth.

We see some private sectors of the economy strengthening. Manufacturing, in particular, has been impressive but is still far below its prior peak. Overall, the economy is on fragile footing. Is C.W. correct this time, or will the economy be on solid enough footing to stand on its own as government support is withdrawn and inventories stabilize?



According to Ned Davis, if job growth averages 150,000 a month over 10 years, unemployment won't fall below 6% until 2019, or below 7% until 2018. It would break below 10% in 2013. Average monthly job growth since 1950 has been 120,000. The last 20 years, excluding the impact of the recession, job growth has averaged 137,000 per month. Source: Bureau of Labor Statistics.

There are several contributors to a strong and sustainable economic rebound, but job creation is the most important. The question is not whether the job picture will improve, but how much and how quickly improvement occurs. C.W. bemoans the fact that the US labor market remains very weak, but the rate of job losses likely peaked some time ago. In fact, we appear to be entering a period of net job creation.

Although some businesses expect to have a permanently smaller workforce in the face of continued concern about economic growth in their industry, others will begin hiring as their businesses recover. Regardless of what C.W. predicts, we must pay attention to how this actually plays out. C.W.'s track record has been tarnished, but the weight of the evidence suggests that we should not be overly optimistic about achieving a strong US labor market for several years.

The point of our discussion is that Conventional Wisdom continues to predict many negatives that will bog down the US economy and investment markets. In some, he may be correct. However, there are positive developments that could contribute to a better outcome than predicted. For example, the continued strength of non-US economies--particularly emerging markets. Therefore, even if the US recovery stretches out for several years, there are US-based global companies and other investment markets in the world that will create positive investment returns for those who distrust Conventional Wisdom.

Thankfully, the 2009 Tax Filing Deadline is Over

By the time you receive this, the April 15th tax deadline will be history. We received numerous requests for information from your CPAs. Without disrupting your investment strategy, we worked hard to minimize your 2009 capital gains by taking capital losses early in the year during the down markets. In many cases, clients also benefited from capital loss carry forwards from 2008.

Our goal is to make certain Summit clients are not blindsided by avoidable capital gains and higher taxes the way some do-it-yourself mutual fund owners are. However, the stock market rally has created substantial profits for our clients that could result in a resumption of capital gains in 2010. We'll also keep an eye on the many inevitable tax changes that are headed our way.

Thank you for your faith in us and as always, please contact us if you have any questions.

Summit Asset Management LLC