



**Quote of the week**

“When you reach the end of your rope, tie a knot and hang on.”  
*Thomas Jefferson*

We are pretty sure the sales numbers of anti-depressants are directly correlated to the number of hours of TV news coverage you watch.

Investors must have slept with their TVs blaring all night long last quarter as stock markets around the world had a miserable 2nd quarter. As you can see below indices lost double digits.

	<u>QTR</u>	<u>YTD</u>
Fareast Ex-Japan	-6.1%	-5.6%
Emerging Markets	-8.5%	-6.5%
Latin America	-11.4%	-10.3%
S&P 500	-11.9%	-7.6%
Pacific	-11.9%	-7.2%
World	-12.7%	-10.3%
World Ex-US	-13.0%	-12.1%
E. Eur, Mid-East, Africa	-13.6%	-8.5%
EAFE	-14.9%	-14.7%
Europe	-16.4%	-18.4%

Guess which country has the best performing stock market year-to-date? Venezuela! +18%...Hugo Chavez is probably gloating and celebrating with a big old Cuban cigar.

Things have a way of coming full circle though so his gloating will probably be short-lived. When you look at the economic news coming out of Venezuela you can't understand why their stock market would be hitting all time highs.

GDP shrank 5.8% in the first quarter from a year earlier, the central bank said in a statement. Private economists and consultants forecast a 7% decline in 2010. Venezuela is entering a second year of recession as President Hugo Chavez's nationalization drive saps investment and his price and currency controls squeeze industrial output. Industrial production plunged 9.9% in the first quarter. Inflation has accelerated to a seven-year high, with prices rising 31.9% in April from a year ago.

Maybe the reason their stock market is doing so well is because due to electricity rationing not many people are watching TV news...and besides the media is all controlled by the government, so when the lights are on at least, the news is probably pretty rosy.

In the short run stock prices can be irrational (just like the humans who are buying and selling them) and bounce all

around for all kinds of nutty reasons. Ultimately though stock prices trade on underlying fundamentals, which is why down the road U.S. stock prices will be hitting new highs and Venezuela will be hitting new lows.

In a bit less than 3 years the S&P 500 has dropped from just over 1500 to today's price of about 1000. Recession + unwinding of leverage + financial shenanigans = bad news and grumpy investors.



Right now, after last quarter's slump, U.S. investors are more convinced than ever that our economy is slipping back down into the quicksand of recession. Government data gets analyzed to death, whether its job's numbers, industrial production, retail sales, housing...whatever, a negative spin can be put anything.

You can't see a rainbow when you are looking down at a puddle.

Yesterday *The Wall Street Journal*, which isn't known for outlandish journalism, had an interesting online article.

**THE WALL STREET JOURNAL**  
WSJ.com

JULY 1, 2010, 10:42 AM ET

**Seven Reasons the S&P 500 Is Going to 1500**

The first line of the story reads:

The S&P 500 may be headed downward right now, but here are seven reasons to believe it will go up. Way up.

What? Way up? Up 50% from here? Don't they know about the deficits, unemployment and tarballs? Look on the back at synopsis of their reasoning.

**One:** International Paper and Georgia Pacific just raised prices on containerboard. Forget about all government data for a second. Why would the two companies involved in every shipment made around the world increase prices? Because demand is there.

**Two:** Consensus among analysts for S&P earnings for 2011 is \$94; that puts us barely above a multiple of 11 times earnings with the historical average somewhere near 15.

**Three:** We are still in the middle of an inventory rebuild after the Great Liquidation that wiped out all inventories in 2009. In fact, corporate profits at their highest levels ever:

**Four:** Consumer spending won't slow, even with 10% unemployment. We've added jobs to the work force for the past 5 months in a row. And average pay was up enough so that it was the equivalent of an extra 315,000 jobs if pay had stayed flat. This is more than enough to keep personal consumption expenditure at an all-time high, where it currently is.

**Five:** With Fed rates at zero, it's hard to find another place to put money.

**Six:** Cash in the bank. S&P 500 stocks have \$973 billion cash in the bank and will probably hit over \$1 trillion in the next year. They will use that cash to do acquisitions, make business investment, pay dividends and do share buybacks. Each one of those things is incentive for people to buy into the market. Private equity firms have over \$500 billion cash in the bank. Typically, a private equity firm uses on average three-to-one leverage when they put that cash to work. That's \$1.5 trillion cash in the bank with the sole purpose to buy companies.

**Seven:** Some of the highest market cap companies in the S&P 500 are very low P/E stocks.

Right now investors are scared of the stock market. If comfort levels rise and these stocks go back to their historical average P/E of 15, the market can easily go to 1500.

Another possibility: Earnings can go up, as they've been doing since the market lows. Or both things could happen, [catapulting us to 1500 or maybe even higher.](#)

Click below to read the full article complete with charts.

[WSJ.COM, Seven Reasons](#)

There is a blog by an economics professor, Dr. Mark Perry, which has a lot of interesting data. Here are a few headlines from it which seem to indicate observations you don't hear on TV.

**Private Sector Jobs Increase in June for the 6th Month; First Time in Almost 3 Years, Since 2007**

**Why Job Growth Might Be Better Than It Seems**

**International Air Travel (Passenger and Freight) Rebounds in May to Above Pre-Recession Levels**

**Rail Traffic Continues Double-Digit Gains vs. 2009**

**June Monster Employment Index Rises 21% v. 2009**

Read it here: <http://mjerry.blogspot.com/>

So with containerboard demand up, real jobs being created, rail and international freight up, corporate earnings growing 30% this year and a trillion dollars sloshing around in company checkbooks, could investors start looking up instead of just looking at puddles? We think so which is why we will be doing a little portfolio pruning and upgrading in the next few days.



*Regarding the Auer Growth Fund: You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses of the Fund before investing. The Fund's prospectus contains this and other information about the Fund, and should be read carefully before investing. You may obtain a current copy of the Fund's prospectus by calling 1-888-711-2837 or visiting [www.sbauerfunds.com](http://www.sbauerfunds.com). Past performance is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Sheaff Brock Investment Advisors, LLC (SBIA) obtains data from reliable sources but does not guarantee the accuracy or completeness of this report, nor does SBIA assume any liability for any loss that may result from reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice and are for general information only. Index return and yield data is from *The Wall Street Journal and Thomson*. Past performance does not indicate future results. Model account returns are gross of fees but net of commissions and include the payment of dividends which are held in money market funds pending reinvestment in other portfolio securities. Client returns may differ because all securities in the model may not be owned by each client. The securities mentioned in this report can be, and often are, owned by clients and employees SBIA. Clients and prospective clients should understand that there is no assurance that capital gains made in the past will continue. There is always the chance that market conditions or portfolio performance may deteriorate in the future, and clients may experience real capital losses in their managed accounts. The Classic Growth model and Dividend Growth and Income model are compared to the performance of the S&P 500 and sometimes to the Dow Jones Industrial Index (DJIA) or the Dow Jones Select Dividend Index although the model positions may not reflect the securities making up these indices. None of the indices may be an appropriate comparison index as our model accounts may own companies not represented in the benchmarks. There were no other strategies employed to obtain the results portrayed other than those strategies disclosed in the Sheaff Brock Investment Advisors, LLC Form ADV or other disclosure brochure.*