



**American Trust
Investment Advisors**

PERSPECTIVES

Green shoots...

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“There will be growth in the spring”, was the insightful line uttered by Peter Sellers, playing the role of idiot savant Chance the Gardener in the 1979 movie *Being There*. Sure enough, as we gaze out on a Northern New England landscape where it sometimes seems spring will never come, leaves have burst forth from buds and flowers are beginning to bloom. But like those characters in the movie who unknowingly mistook the observation of a simple gardener for a prophetic forecast on the economy, we observe that there is a certain wisdom to comparing our economic seasons to nature’s cycles. This too shall pass. A new season comes.

And while the unemployment figures continue to be frightful and industries from autos to banks are in the midst of vast and wrenching change, there are some tentative signs of stabilization. At the very least, the sense of free fall is over. In a few places, there are even signs of renewed growth.

We thought we would share with you a few “green shoots”:

The US economy may be nearing a bottom...

- Payroll processing giant ADP reported that US payrolls fell by 491,000 in April, much better than March’s 708,000 drop
- New home sales appear to have stabilized nationwide and KB homes is reporting a home pricing floor in Southern California where resales are accelerating
- Car manufacturers are again financing new car sales according to AutoNation, with GMAC financing 13% of its cars and trucks in Q1 09 vs only 2% in 4Q 08
- Diverse industrial companies Parker Hannifin, ITW and Dover Corp. reported that orders stabilized in April
- Box maker Packaging Corp. said corrugated box orders – widely used throughout the economy – jumped 15% in the first half of April vs. March
- US shoemaker Stella (largest non-athletic shoe company) saw positive volumes in April after high-teens declines in the first two months of the year

China’s growth may be picking up again...

- Electric consumption, which had fallen 10% in the fall, showed a recovery to -2% in March
- April auto sales surged 25% over the prior year
- Chinese cell phone traffic rebounded to +18% in February after hitting a low of +13% in January
- Courtesy of GS China Research, we note the following as evidence that China’s domestically oriented stimulus package is starting to kick in meaningfully -

- PHC Pile, a maker of concrete forms, went from being 50% booked in Q4 to fully booked today.
- Chinese railway construction spending has surged from +90% growth in 2008 to +170% in Q1 09
- Truck traffic is said to be higher in China's interior than along the coast, reflecting a shift in economic activity toward internal spending versus exports

Europe's decline may be decelerating...

- An index based on a survey of U.K. service industries showed the biggest jump since 1999, and U.K. consumer confidence surged in April
- A survey of European purchasing managers showed a 10% improvement in April – its biggest ever monthly gain which put the index back to last October's level
- Shipping container rates between Europe and Asia increased 6% in mid-April
- Pizza sales at mature Domino's stores in Europe increased 9.3% in Q1

What can sales volumes of shoes, boxes, Chinese cell phone calls and pizza from around the world really tell us? To be fair, these anecdotes should be put in context: We continue to be in the grips of the worst economic contraction most of us have ever lived through, and an overhang of debt will make for a trying, multi-year recovery. But the contraction's grip is loosening, and a sense of normalcy is returning even as we face up to our problems. The fear that the economic system might collapse, a very real fear several months ago, has largely vanished. An upturn in 2010, heretofore a dream more than a forecast, is now palpable.

The stock market meanwhile has had a remarkable recovery, rallying 36% off the March 9th lows. This past earnings season was better than expected. With over 70% of S&P 500 companies having reported at the time of this writing, nearly two thirds beat expectations. But of course expectations weren't very rosy, and the median earnings declined a painful 18%.

Ironically (but, for students of stock market history, not surprisingly), as grim as it has been for the economy, it has been a wonderful time to buy stocks. It still is. We continue to see good value for a number of stocks notwithstanding the market's rebound. We are committing capital into the market for some of our clients that had asked us to be cautious for a time, but we are still keeping some powder dry should the market reverse course. Specifically, we are recommending a 5% additional overweight in cash be retained to capitalize on any such opportunity.

With the market volatility we have seen, many of our clients are revisiting their asset allocation targets. Some have become more conservative. A few have become more aggressive. We welcome discussing your current situation, risk tolerance and financial objectives. We always welcome having such conversations, but now seems an especially important time to hold them.

Paul H. Collins, President

Carey Callaghan, CIO