

2011 First Quarter Review

As another quarter flies by, we at Kuntz Lesher Capital are happy to provide you with statements showing balances that have rallied amazingly well from the bottom of the market of March 2009. Only two years ago, the abysmal market made us all fearful of the future. Although the market has doubled since then, so many of us worry that our funds will again drop precipitously, removing a great deal of security from our lives.

Economic Overview: Inflation & Cash on the Sidelines

This market reminds me of Mark Wahlberg in "The Fighter." No matter what you throw at it, it keeps bouncing back! Middle East conflicts, Tsunamis/Earthquakes/Nuclear Meltdowns in Japan aren't phasing it. We do recognize there is human tragedy in all of this, but our focus here is on what it means for us as investors. All in all, these events shouldn't impede the global recovery too much. Some of the figures being thrown about is that oil would have to go to \$120/barrel before it started affecting GDP significantly. We remain optimistic that the economy and the stock markets continue to recover with strong earnings and unemployment moving in the right direction. We will have our setbacks, but the momentum seems to be in one general direction...up.

I overhear the conversations among people talking about how they don't understand the Government saying there's "no inflation." First of all, inflation is something that is individually experienced. Picture a pie chart where each slice represents the cost of Housing, Food & Beverage, Apparel, Transportation, Medical Care, Recreation, Education & Communication, and Other Goods & Services. This makes up the Consumer Price Index (CPI). For each one of us, the percentage size of each slice is going to be different depending on how we live our lives. Take a family with children who will go to college and those who do not have children. The family with college bound children is watching college tuition go up over 100% in the last decade – yikes! Their personal inflation will obviously be higher, all other things being equal. The Government attempts to make a pie chart that represents the average American's inflation experience. In the Government's pie chart, Housing represents 42% which is by far the largest piece of the pie. With the housing market still in a funk, you can start to understand why the Government says what it says regarding inflation. Couple this with high unemployment (24.5% for teens), anemic wage growth, bank lending below normal, excess capacity in the economy, and we are still not in a situation where we have "too much money, chasing too few goods."

The one experience we all share is when food and energy prices go up. These are inelastic goods, meaning we need to buy them to live no matter how high the price goes. These two things also happen to be the most volatile in price changes over time. These prices are determined by the commodity markets, where hedgers (Farmer Joe) & speculators (Mr. Wall St.) meet, and are outside of the Fed's control. That's why the Government reports two versions of CPI – one with and one without Food & Energy. The one without measures inflation due to money in the economy which the Fed attempts to control and the other includes the volatile prices of commodities we use every day. When combining the two, yes commodity inflation is up, but it is being partly offset by the factors mentioned above. Also, the Fed will be hesitant

to overreact to such volatile price swings by raising rates drastically and risking our economic recovery. Do we believe the Fed should still be holding rates at near 0%? No. The crisis is past us and the patient, the economy, is in recovery, but we're still treating it like the economy is still in triage. A Fed Funds rate of .75% to 1% would be more appropriate given the slowness of our recovery.

Another misconception I'd like to clear up is this "cash on the sidelines" argument that there's this mountain of cash just waiting to plow into the stock market. Remember, a trade has two sides...if someone wants to sell their cash to buy stock, someone else has to be willing to sell their stock for cash. Outside of a large amount of new issuance of stock, it's just not going to happen the way the media portrays it. The reason so much money has flowed into bonds over the past 2 years is because a record amount of new issues came to market over that time as rates went down and companies could borrow cheaply. In other words, a ton of new supply was created for "cash on the sidelines" to move into. So remember, if you're buying an asset, someone else is selling that asset and vice versa, unless you're buying a new issue.

The cash we should be focusing on is the \$1.9 trillion on corporate balance sheets sitting in banks earning nothing. The crisis is over. What are corporate executives waiting for? How about some dividends? If our economy has recovered and is in expansion mode, why aren't they investing? The amount of cash on corporate balance sheets dwarfs the infrastructure and tax cut plans bandied about last year, and handily exceeds the 2009 stimulus package. Why not just split it down the middle with us. These executives are depriving the economy, as well as investors, of billions of dollars in badly needed funding. What are they waiting for?

- Chris Ginder, Vice President/Portfolio Manager

Interesting Facts:

When unemployment was over 9.6%, a study was done to see how this figure compared to ones educational background. As we would think, unemployment isn't fairly distributed through the U.S. populous, as are so many others things in life. When unemployment was 9.6%,

- The figure was 4.7% for college graduates.
- For employees holding a Masters degree, the unemployment rate was only 2.3%. Although we all know persons who are unemployed with post secondary educations, employers are less prone to lay off an employee who is more difficult to replace.
- High School graduates had a 13% unemployment rate, while
- The high school "drop-out" rate was 17%. OUCH!

Medicare Seminar

Kuntz Leshner Capital is presenting an educational seminar at the Lancaster Country Club on May 3rd from 6 to 9 p.m. The topic is Medicare, the choices for Medicare supplemental policies and Medicare D. For all nearing retirement, those who have retired but are interested in reviewing their choices or possibly a parent or other family members who need to make these choices, please come and learn.

We frequently ask whether one needs to start Medicare at 65, which is the best supplement, do I have to obtain drug coverage? How does all this work with my employers' health insurance coverage? Please come, invite a friend and enjoy! Please RSVP to Corinne at 291-0682 by April 25th.