

## **Neiman Funds' Economic Outlook Year to Date – Where We Are**

August 12, 2010

So far 2010 has been a very difficult environment to make money in stocks. Year-to-date through 8-12-10 the S&P 500 is flat, up .05% for the year. That's incredible given the fact that the S&P 500 has had an almost 200 point swing thus far this year. But that tremendous volatility has given the markets no upside return. As we have been saying since last year, corporate earnings will be the market driver. We've seen this pattern repeat all year long. Due to the strength in earnings, the markets have rallied during the reporting months but sold off after earnings were finished. Most recently in July, the S&P gained about 8% for the month. Some of the earnings numbers were fantastic; on the whole they were better than expected.

Unfortunately corporate earnings come out only four times a year. During the off months the markets have nothing to do but focus on the uncertainty and try to glean some clarity from the economic data. That economic data however has been dismal at best. Unemployment remains high, housing numbers are shaky, confidence is at a low, retailers missed July sales forecasts for the 4th straight month, and the GDP growth rate is a meager 2.4% as of the second quarter. The double dip recession camp is growing and with the current fiscal policy it's looking more and more possible.

The most recent sell off was not only due to the abysmal jobs data but more importantly the perception that the federal reserve is quickly running out of options. What the market needs in our opinion is some level of clarity from Washington regarding tax rates and a real plan for stimulating private sector job growth. A healthy recovery happens with the combined fiscal and monetary policy heading in the same right direction and although the fed is trying to get it done it has had zero help on the fiscal policy side from the current administration. The best example that I can provide is: it's like running a marathon with one leg. You're not going to make it very far. That's where we are right now. The Fed is doing what it needs to do with the administration seemingly doing the exact opposite of what it should.

### **Near Term Outlook**

We think that for the near term we will continue to see tremendous volatility in the markets without much in gains. Without earnings to focus on we have plenty of time to dwell on the economic data, and that's not a good thing. We will likely retest recent lows, but with any signs of strength from the economy we could hold above the 10,000 level on the Dow and 1050 on the S&P.

However, October will probably bring better markets for a couple of reasons. Most importantly, we'll be in earnings season again. But also, we believe that the markets will rally on the anticipation of the election results returning some level of balance to the US government.

### **Long Term Outlook**

And now the good news: In the longer term, we believe that the current P/E environment combined with the record cash balances in corporate coffers represents a good opportunity to accumulate quality companies that exhibit these traits. I'm not sure if it's two months or two years but at some point when these companies feel comfortable again with the economic environment, they will begin to put that cash to work. And when that happens we will finally break into a higher trading range for the major industries.