



Adams Hall

Asset Management

2nd Quarter 2009

From Every Threat Comes an Opportunity

What a quarter! In fact, it was the best quarter for stocks in over ten years. The S&P 500 rose 15.2 percent in the three months through June. The next question, of course, is “*Are we out of the woods yet?*” The quick answer is – “we don’t know yet”. We think the jump in equity prices is a result of most investors coming to the conclusion that financial Armageddon was unlikely. Since there was relatively little change in fundamentals that would cause such a dramatic spike in equities, we believe the lack of Armageddon makes sense. With the threat of economic collapse seemingly off the table, we are free to look at other topics that may affect the economy. As it turns out, there is no shortage of issues on the worry front. Let’s look at some threats and opportunities that may be in the future.

Unemployment - While unemployment is certainly high and will likely get worse before it gets better, the unemployment statistics’ affect on the overall economy is overstated. Unemployment is widely regarded as a lagging indicator. It changes after the economy has already begun to follow a particular trend. The dreary news from the labor front has contributed to holding down inflation as the Fed has pumped money into the system.

Inflation - The threat of inflation as a response to the administration’s stimulus and the Fed’s quantitative easing has been discussed for several months. Several factors play into when inflation hits and its severity. Inflation likely will not return before GDP has recovered and money begins changing hands at a faster rate. Luckily (when discussing inflation) the GDP is improving slowly. As the economy improves, the Fed should begin withdrawing the extra money from the system and perhaps raise interest rates. That is easier said than done. It is never a popular move to raise interest rates and slow the economy. The timing of the Fed’s response is equally complicated. A slow and steady improvement in the economy is ideal in controlling inflation. In the near term, the economy is still fighting *deflationary* pressures. Economists agree that inflation is not an immediate issue. Regardless of the inflation scenario, companies with strong balance sheets and no need for borrowing will likely have an economic advantage. Emerging market economies and companies that have exposure to commodities should perform well in an inflationary scenario.

Several other national issues may be decided in the next few months such as health care reform, cap and trade, and California's budget deficits. We do not yet know the impact these issues will have on the nation's economy. We do know, however, that *the markets are bigger than politics*. Even with the level of uncertainty in the near future, we feel that our long term investment initiative to 'Think Global' fits particularly well. Industrious and entrepreneurial people will find ways to be profitable in any political climate. Whether the investment is emerging markets, cash rich multinational companies, or commodities-based companies, the common theme is borderless investing and giving fund managers the latitude to invest where they see the greatest opportunities.

Adams Hall believes that trust is earned. We want to assure you that the confidence you have invested with us is not taken lightly.

Sincerely,

Adams Hall Asset Management