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Why a Thirty Year Old Lesson Learned as a County Councilman Has Currency for the Equity Markets of 2010

When I was thirty-four years old, I was elected as one of seven Councilmen for New Castle County. Representing 65,000 constituents, I was energetic, optimistic and believed in the power of government to do good things for its citizens.

Although I was a Republican, Jack Klugman and Tony Randall would have been proud to have learned that my political heroes were Ronald Reagan and Robert Kennedy. Indeed, my inaugural speech relied on Kennedy's ideas and compassion for much of what I said I wanted to accomplish.

The very week I started my service, and a full four years from his next election, my only fellow Republican Councilman told me that what he needed to focus on was getting reelected. As I listened, I thought to myself, "We haven't even started doing any 'good works' and here Dick is telling me what he needs to keep his job."

You may know that Republican Mitch McConnell of Kentucky is the Minority Leader of the US Senate. Well Dick, my fellow elected Republican, wanted to burnish his political resume by telling his constituents that he held the position of "Minority Leader of New Castle County". However, he needed my vote, since there were only two Republicans on the seven member Council and, if I voted for myself instead of Dick, then we'd have a tie and therefore no one to claim that exalted position.

Call it The Education of a Callow Politician. I learned really fast the First Lesson of Politics: "Politicians Will Do or Say Whatever They Must to Get Reelected."

Why is that important today?

Because the game hasn't changed in thirty years and neither has Rule Number 1. What's the most pressing issue today?

Despite spending 2009 engaged almost exclusively on the healthcare battle, the most pressing issue is "the economy, stupid!" James Carville had it right in 1992 and it's the same refrain for 2010. Unemployment is hovering around ten percent, which is higher than it's been since I was a local elected pol thirty years ago.

That means politicians of both parties need to do whatever they can to create jobs. No jobs for John Q mean no jobs for the political class. The public's dissatisfaction with elected officials has been demonstrated as loudly as the noise one hears standing one hundred feet from the backwash of a 747 leaving the Philly airport.

The voters in Virginia, New Jersey and Massachusetts have collectively said, "Out, out, damn spot." And I don't think those votes are a claim of dissatisfaction with just Democrats so much as Tea Party-type disgust with whomever holds the reins of political power.

That's why a jobs bill (aka Son of Stimulus) will pass this bipolar Congress soon. Over the last eighteen months government has already primed the private pump, flooding money into our economic system when the private economy couldn't sustain itself without that life line. Unfortunately the 2008 and 2009 injections have yet to translate to job growth.

Why is that so important? Because job growth is the last piece to kick in during any economic recovery, but the foremost matter when it comes to political elections. That fact makes it imperative that the Washington crowd "do something, stupid."

The voter class is, with apologies to Network's iconic Howard Beale, mad as hell and isn't gong to take it anymore. And from the point of view of the political class, the 2010 and 2012 elections are just around the corner. And there are fewer months left than the time which was left for the reelection of my County Council colleague when I helped to make him New Castle County's Mitch McConnell.

Joe Biden, our Senator from Scranton, recently told the *News Journal* that by early summer if not by May "we're going to start creating 100,000 to 200,000 jobs a month". For the sake of all our portfolios I hope Joe's prediction comes true,

since it will mean the economy is really on a sustainably strong path to recovery. Watch the jobs numbers; they will be a big clue to political survival as well as to our investment health.

The yield curve -- the relationship of short-term and long-term US government bond payments -- is extremely steep right now. A 10-year T-Note pays 3.65% while the 90-day T-bill rate is just 0.125%. That steepness is good news for assets like stocks which are riskier than assets like cash, money markets or bonds.

Here's how that works: In late 2008 and early 2009 the stock market falls off a cliff; John Q reacts by taking his money out of the risky stock market and parking it in savings accounts and money market funds. But his money market pays him nothing, so sooner or later sometime in 2009 he screws up his courage and moves to a bond fund paying around 3%.

According to the Investment Company Institute, last year investors pulled \$8.8 billion out of stock funds and stashed forty times as much, \$374 billion, in bond funds. This year \$10.9 billion has washed back into stock funds but \$46.6 billion has cascaded into bond funds. That's where John Q's money is today.

But the stock market is up 65% from this time last March. As consumer sentiment gains a little confidence, that 3% won't look so good in comparison to those risky stock returns, so John Q will take some of his \$7 trillion still squirreled away in those money funds and will venture into the stock market. (If you're an investor, I hope you're there before John Q gets there; he's always late. He gets to the party after it's started and is the last to leave after it's over).

The Administration and Congress will vote for economic stimulus and will continue to prime the pump. For their own job security, they need the market to go up and jobs with it.

With good jobs numbers, here's how one scenario might play out: The S&P 500 index is at 1120 now. An earnings estimate on the S&P 500 companies of \$75 for 2010 moving to \$85 for 2011, numbers easily projected and achievable, coupled with the S&P 500's normal PE ratio over the last 20 years of 17.5 gets us to almost 1500 on the S&P 500 index by the time the next political class will take office in January 2012. What's that market increase? 32%. That's a pretty nice number, but you gotta get in the game to reap its rewards.

Listen To The Music

Here's a fun quiz which requires no knowledge of music but uses it as the starting point to our quiz. We've been talking about politics and current events, so let's continue with a question in that vein.

On the current events front, the lead singer of a one hit wonder group called The Knack died last month. For six weeks in the summer of 1979 The Knack had the nation's number one song called [My Sharona](#). (Hold the CTRL button down while you click on the link to hear the song again).

Had I asked you to name the singer, only Doug Stewart, Pete Booker and maybe Bill Allan would have got it right. So let's broaden the people who can potentially win the quiz.

I'm specifically challenging my progressive Democrat friends and trial lawyers -- readers like Bill Quillen, Fred Sears, Art Connolly, Nardy Ableman, Dick Wier, Charlie Oberly, Dave Erisman, Bernie Van Ogtrop, Joe Hurley or Jim Erisman -- to give me this answer. (Heck, Jim, you may have broken bread with this man).

The deceased's singer's brother is a famous (or infamous) lawyer from Michigan. He represented the family of Scott Amedure in the wrongful death suit against *The Jenny Jones Show* as well the family of a child killed in the Columbine High School Massacre. He also ran unsuccessfully for the Democratic nomination for Governor of Michigan in 1998. But he's most famous for representing Jack Kevorkian for many years.

Show us your current events and political chops by being the first to identify Dr. Death's lawyer. Remember to play by the Westover Code of Honor -- you can use your mind and that of your friends, but not the internet. A \$100 gift certificate to a restaurant of your choice awaits.

And while you're thinking, keep your fingers crossed that the jobs number starts to turn around.