The Carnegie Counselor

THE CARNEGIE INVESTMENT COUNSEL NEWSLETTER
FIRST QUARTER 2011

Winkers on Wall Street

We entered the year optimistic for equities due to the strong earnings being produced by corporations worldwide. Not one of our research sources foretold the pending global distractions that would unfold over the last ninety days.

The pursuit of democracy in the Middle East tumbling or challenging decades-long dictators in Egypt, Tunisia and Libya was not even suggested entering the year. Unrest has spread to Jordan, Lebanon and Sudan, and by Independence Day they might be celebrating their own independence. If we had known an earthquake/tsunami/nuclear threat would take place in the third largest economy in the world, we would have been more cautious. Even this event wasn't sufficient to distract the steady progression of stock prices. Similar to a racehorse with blinders (winkers in Australia), the market maintained a steely focus on earnings despite the many distractions. The result was the second best first quarter gain since 1998 with an advance of 5.9% for the S&P 500 index for the first three months of 2011.

The singular obsession with earnings is nothing new for the folks that manage money. For many a decade, the knowledge of the direction of earnings has been the catalyst for stock prices moving higher or lower. Like most investment firms, we use outside research analysts that provide us the earnings data for the companies we

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follow. The financial media is in a tizzy covering the case of Raj Rajaratnam, hedge-fund manager of the Galleon Group, who couldn't quite wait for the public data on earnings and paid for

In the news

Carnegie Ranked By Crain's

Carnegie Investment Counsel was recently ranked #11 in Crain's *Cleveland Business'* April 11, 2011 List of Largest Money Managers.

Carnegie was also the fastest growing firm among managers with$100 million or more under management. Thank you for your referrals and confidence.

Spring is Here

Now that the snowy days on the Lake Erie Shore are gone we look forward to great baseball, great weather and hopefully even greater financial markets—Enjoy!

insider information (allegedly). He'll likely go to jail, trying to earn outsized profits for his clients. While we are very committed to you, we'll be pursuing only public data for our research to avoid a similar fate.

When the stock market ran to its highest ground in 2007, it was propelled by the record earnings produced by publicly traded companies in 2006. The accumulated earnings of the S&P 500 in 2006 were $87.72, an all-time record high, sending the market above 1,468. This earnings number dipped to $60.80 in 2009 but rebounded in 2010 to $83.66. This year the forecast for earnings is to top the previous record and exceed $95 in earnings according to research from Standard & Poor's. If this were to happen, we'll get more calls inquiring as to why we don't own more stocks. We'll likely hit the earnings number despite the horrible housing market, the persistently high unemployment, and being entrenched in another war.

The Federal Reserve has not yet pushed interest rates higher, despite the rise of prices for food and fuel. This has continued to hinder the returns on bonds and interest-bearing notes for clients needing income. While bond prices have started to head south, it has created an opportunity for us to pick up some bonds at prices not seen in years. Particularly, municipal bonds have been dropped like hot cakes from mutual funds needing to raise cash as investors have started to bail from bond funds. Our strategy to limit the impact of falling bond prices, if possible, is to own individual bonds and hold them to maturity. Therefore, maintaining good quality is paramount and duration we can live with, generally short. This successful strategy has been the catalyst for a significant increase in referrals into our firm over the last year.

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The fine balance of owning stocks vs. bonds is paramount to performance. While the headwinds for bonds are strong, bonds are still important for portfolios by providing necessary income and stability of principal. While stocks may appear to be Secretariat in the Belmont compared to bonds this year, we'll continue to use bonds to protect your downside since unexpected events do occur. Enjoy the spring that has finally arrived; we'll keep focusing on your portfolio without winkers. We continue to be grateful for your trust in our service.

As a truly independent investment management and planning firm, Carnegie Investment Counsel has a rich history of providing careful and responsible management of your financial assets to reach your short and long-term goals.

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Carnegie
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