WEBB ASSET MANAGEMENT

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Monthly Commentary

SYSTEMATIC, PROVEN & RELIABLE

Commentary

The Bull Market Ahead

The equity markets go higher. The bears cry foul citing bad economic news. The bears forget that markets discount change and things are getting better and assuredly not getting worse.

The S&P 500 originally had earnings of $95 for 2007. Those earnings estimates were cut 42% to $55 for 2009 and now have been raised 27% to $70. The estimates were just too negative as the economy has not collapsed and companies have done an excellent job of cutting costs. At the same time that earnings have risen, valuations have expanded. In dire times, P/E multiples contract and in optimistic times, P/E multiples expand. At the bottom in March, P/E multiples and all valuation metrics collapsed to panic levels rarely seen. Thus the increase in earnings estimates coupled with a more normalizing of valuations has created a massive rise is stock prices. So is there more returns to come? The simple answer is yes. As stated last month, the first phase of the bull market is the rerating of stocks from 'not going out of business' to 'surviving'. We are currently in this phase. Though many stocks have been rerated there are sectors like the US financials that are still priced as if they might go out of business.

The next phase of the bull market will be driven by a moderate growth in earnings. For stocks to continue to go higher we will need to see some positive momentum in earnings. This is where the 'green shoots' are important. The earnings growth does not need to be exceptional; it just needs to be positive. Currently, there is positive EPS momentum in many sectors including technology and resources. Lastly, what is most impressive about this bull run is the breadth. Almost all stocks and all sectors from gold to banking are participating. Breadth confirms that the trend is firmly in place. As stated previously, it is important to invest early in the bull market as the returns are the greatest and the risks are the smallest.

Currently, valuations are still reasonable while earnings are beginning to rise. Invest now as this might be the best opportunity of the decade.

-Derek Webb

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