

## Market Commentary – April 2008

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### April 2008 Review

After five straight months of decline, U.S. equities finally got some relief in April. Equity indexes started the month positively and ended with solid gains. First quarter earnings season got under way and some high profile companies posted good results. Also, large banks made notable moves to shore up their capital needs. However, all news was not rosy as oil prices continued to surge toward the \$120 per barrel level, inflation concerns persisted, and reports of home sales continued to come in negative. Momentum and growth investment styles continued to be in favor. Investors also tended to prefer large capitalization companies during April. Value continued its relative poor performance. With oil prices marching higher, it is not surprising that coal and oil related industries were among the best performing groups during the month. Metals, copper and steel were also among the best industries.

### Market Outlook

Tower continues to believe that the stock market can make upward progress during the coming year. Our year end price target for the S&P 500 remains 1550. We expect decisive policy action by the Fed and Washington, the growing global economy, strong corporate cash flows and balance sheets, and very attractive valuations to offset the challenges of slowing economic and earnings growth (especially during the 1<sup>st</sup> half of the year), and weakness in the credit and housing markets. Additionally, “The US Presidential Election Cycle” and “Stock Market Gains Following the Last Fed Rate Cut” historical studies provide convincing results that support higher equity prices by year end.

In the near term Tower expects the stock market to consolidate/pause following the strong rally off of its late March lows. High energy costs and sluggish US economic conditions as well as on-going challenges in the US credit and housing markets will limit the advance. However, as the

impact of economic and monetary stimulus efforts begin to kick-in we expect the stock market to grind higher.

### **Strategy Summary**

Tower continues to transition to a less defensive strategy. Beginning in late March Tower began reducing our cash levels and purchasing select stocks that we believe will disproportionately benefit from the US economic and earnings rebound that we foresee occurring during the second half of 2008.

### **Money Market and Bond Strategy**

As dislocations in the credit markets persist Tower will continue to employ highly defensive money market and bond strategies. Principal preservation and price stability will continue to take priority over yield level.

### **Stock Strategy**

Tower continues to implement a less defensive strategy and to opportunistically position the portfolio to participate in the stock market advance that we believe began at the end of March. Successful stock picking themes that we will continue to emphasize include stocks that are can grow earnings in a decelerating earnings environment (i.e. Multinationals, Agriculture plays, Aerospace & Defense stocks, and select Technology companies), Foreign stocks (stocks with exposure to Europe and fast growing emerging markets in Asia, Eastern Europe, and Latin America), High Quality stocks, and stocks that have high free cash flow yields. In addition we have developed a new "Early Economic Cycle" stock picking theme that emphasize stocks that participate in industries that are disproportionate beneficiaries during the early phases of an economic expansion and that will be direct beneficiaries of Washington's \$150 Billion economic stimulus package.