



LMCG Global Multi Cap: Flash Report Special Edition

Special update 5/24/10: Despite recent market downturns, we are still positive on equities both domestically and abroad

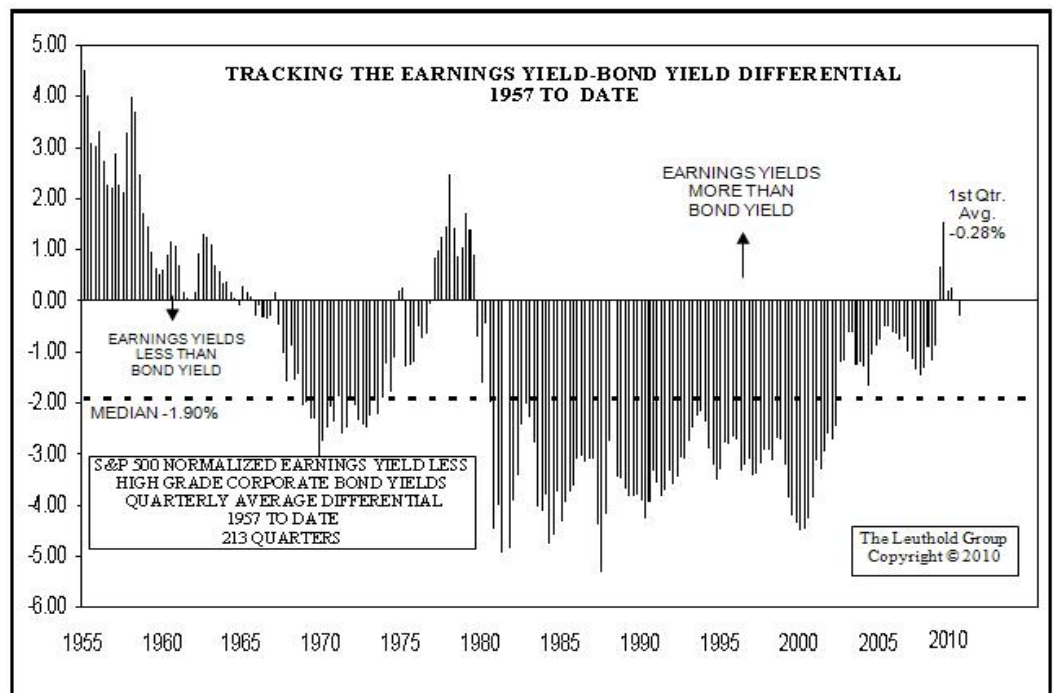
The current market correction has been a response to increased fears in the global sovereign debt market. The US equity market has declined approximately 10% from its peak, while European and many emerging equity markets have declined more significantly. This pattern follows nearly every recovery from bear market lows over the past century, regardless of the subsequent strength and sustainability of the economic recovery. But that does not mean we are passive in our response.

In February, 2009 we stated that we believed that the stock market could appreciate in the face of weak economic data; now we believe that the market is correcting in the face of strengthening and sustainable economic activity. The fear, emanating from potential sovereign debt defaults among the weaker economies of Europe, has created fears for the credit strength of major markets like the United States and other G-7 countries that have used aggressive spending measures in the face of the great credit crisis in 2008.

While the stress of the inevitable fiscal cures to this world wide spending spree (higher taxes and cuts in stimulus and government programs will slow future growth, the equity markets may have already discounted a worse case scenario.

Valuations show why this is true. One of the most important long term relationships that measure value of stocks is how equities compare to the yields on bonds. When we view the 5.9% yield on high quality long maturity corporate bonds (Friday, May 21), to the earnings yield on the S&P 500 (17.5 times price over earnings) for over a century, either equities are inexpensive or bonds are expensive. Over many cycles and crises, this relationship has gravitated back toward an equilibrium relationship, although not necessarily fast enough for investors with short time

horizons. This great chart from our friends at The Leuthold Group in Minneapolis gives a good long term perspective on the equity case.



*Source: Leuthold

Since March 31, the debt crisis in Europe has actually resulted in reduced yields on US Treasury Bonds as the yield on corporate bonds have held steady. That is good news. The stress of the crisis is seen in the Libor rate – an important global short term lending indicator – whose rise may be the indicator of a tipping point in the management of the Euro currency and fiscal policy of European countries involved in the Euro. The sober realities of the risks of high debt levels are very important for the United States as well, and we

will continue to be watchful in the management of this strategy. Renowned author Niall Ferguson recently warned leaders of G-7 countries who may be pointing fingers at Portugal, Ireland, Greece and Spain (derisively called the “PIGS”) for fiscal mismanagement of government financing, saying “Ladies and Gentlemen, ‘PIGs ‘R’ Us’.”

As we review asset allocation, we remain cautious near term but are compelled by equity valuations and continuing evidence that the economic recovery is strengthening in North America and remains solid in Asia.

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