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After a rough month in the markets, September kicked off with the ISM Manufacturing survey, which surprised economists with a gain in August after three months of declines. The stock market lit up on the news, with the Dow gaining almost 255 points, or 2.5%, on the day Wednesday the 1st. Thursday's gains were more modest at 51 points, and could reflect some reassessment of the state of the economy given that there's been some recent evidence of a bit more spending and a bit more confidence on the part of consumers.

This is in great contrast to Monday's 141-point decline in the Dow, which came as trading was the slowest of the year. This is a time when a lot of Wall Street is on vacation and trading becomes erratic.

Consumer incomes improved for the ninth month out of the last 10 (they went down fractionally in June). On a year-over-year basis personal incomes are up 3.0%, the highest rate since October 2008. Consumer spending is up at a 3.4% year-over-year rate which isn't particularly impressive, but it's not contracting the way it was in 2009. And Thursday morning's report on chain store sales seemed to show that consumers are boosting spending a little bit--an encouraging sign. That said, overall spending is still well behind where it was a couple of years ago.

Friday's encouraging employment report will be a key note in setting the market's tune over the coming holiday-shortened week. Futures were up on the news that private employers added 67,000 jobs in August, higher than forecast, while the rise in hourly wages and temporary positions (along with a half million more people resuming the search for employment during the month) can be considered signs of growth in progress and growth to come. Overall, however, the economy lost 54,000 jobs, as the government dropped 114,000 temporary census positions. Next week there's really a dearth of reports for traders to hang their hats on, so it'll be grin-and-watch-it time for the markets.

Last week's revision to second quarter GDP was not as dire as had been priced in to the markets. From the prior 2.4% estimate, the number was revised down to 1.6%, not a great number in and of itself, and one that exhibits what we already know; slow growth is slowing, and while the absence of growth isn't the result, the probability that it could be is correlated to the weakening pace. Fed Chairman Ben Bernanke's speech in Wyoming near the end of August was less than earth-shattering, but confirmed that the Fed is well aware of its central role in keeping economic

conditions favorable towards growth. That said, Bernanke's comment that "Central bankers alone cannot solve the world's economic problems," was spot on.

As for economic indicators, we can deal with reports of a slowing in durable goods orders because the rebound from the bottom of the economic cycle was so strong. And we can also cope with the markets taking a step back because they too had a sharp rebound from their early-2009 lows. Should earnings growth rates in the current and ensuing quarters also slow, it won't come as much of a surprise. In any case, the almost V-shaped bounce for earnings (up 51% year-over-year in the first quarter), for the stock market (up 52% from the March 2009 bottom) and for many economic indicators, is slowing down.

Housing remains the weak link despite some of the lowest mortgage rates ever recorded. Partly, the consumer is worried about deflation and falling values (something we don't worry about because we believe the Fed is watching this very closely and will do all it can to prevent it, plus the fact that there are pockets of inflation already appearing, such as within the food commodity area). Another problem for housing is that banks are not willing lenders. It's one thing to say mortgage rates are at record lows, but quite another to find a banker willing to lend you money at that rate or even something close to it. And finally, of course, the job market is problematic as businesses have found ways to cut jobs and still increase production and earnings. Without a steady paycheck it's tough to buy a home.

We know we'll have to vie against electioneering rhetoric and broken clock doomsayers over the next month or two. But the theme that interests us most is one that has yet to be challenged: Businesses have found a way to profit in what remain recession-like spending patterns from the private sector, consumers and the government. Yet, that fact is not only being overlooked but also bypassed by a continued flight to perceived safety in bonds, particularly government bonds.

What this means, simply put, is that stock valuations are even more attractively valued on a relative basis, and more attractive on an absolute basis given their future earnings potential (growth potential), especially when contrasted to the historical indebtedness (threat to growth) of government issuers.

We're hopeful that what we're seeing right now is what we'll call the "pause that refreshes" (a well-known Coca-Cola marketing slogan that, unfortunately, was coined and used in 1929). No, we don't think we're heading for a Depression; we think we're just in a slowing phase.

As investment advisors we counsel patience, and a bit more confidence in American ingenuity and strength than some on Wall Street are willing to give right now.

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