



# MARKET TRENDS

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**JUNE Update 2009**

Statistical information from Standard and Poors and the Wall Street Journal

We have seen improvement in the markets over the past three months. The DOW is up 11% for the past three months but **down 3.8% for the year**, the S&P 500 is up 15% for the past three months but **up 1.8% for the year**. The favorable factors at this time are: the massive amount of stimulus, both monetary and fiscal, in the U.S. and globally; the huge reserve of cash on the sideline available for investment; various cyclical influences now turning positive; the global recession that may be nearing a bottom; and the potential for favorable earnings surprises compared with extremely negative expectations.

**Three key factors** are needed to provide the basis for the continuation of the current cyclical bull market into next year. These key factors are: 1) the prospect of a significant **corporate earnings** recovery in 2010; 2) a **low interest rate** structure; and 3) a low risk of **inflation**.

The markets are saying that the three above are factored in and that housing (while still in trouble) will have turned, unemployment, (although at 9.5%, probably going to 10% or 11%) will have turned, and consumer consumption (70% of GDP) will have turned. We hope all of this is true, but we remain cautious.

We do not know where the markets will be over the short term (36 months), but feel with a floor under the financial system there is a foundation to begin building. A number of factors (housing, unemployment, corporate profits, global financial instability, and the return of the consumer) make us uncomfortable. The biggest problem for the economy now is one of trust and understanding. The lenders are not willing to take risk, and in an economy built on risk-taking (that's what credit is), there is an argument for **slow growth**.

So where are we now? We are investing for **YIELD**. The corporate bond positions we have taken are all short term 2009 to 2015 maturities. Many were purchased at a discount, and most are in the 2010 to 2014 maturity range. We have also taken some positions in municipal bonds for our taxable accounts. The equity positions taken are invested for **yield not appreciation**. We have selected funds whose managers have done well (relative to the S&P 500) over the past 18 months.

Because we just started to invest and paid accrued interest on our bond purchases, our performance year to date will be close to even or slightly negative. Most of our bond positions are just now starting to pay interest. Also note these positions are being bought with the intention of holding to maturity. Our best thinking now is that we are in a period (36 months) of **very slow growth**. As these positions mature we will reevaluate the situation.

Allan Mendel

Chris Stratton

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*Registered Investment Advisors*