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**Sandpiper Capital**

# Gleanings

## More to come…

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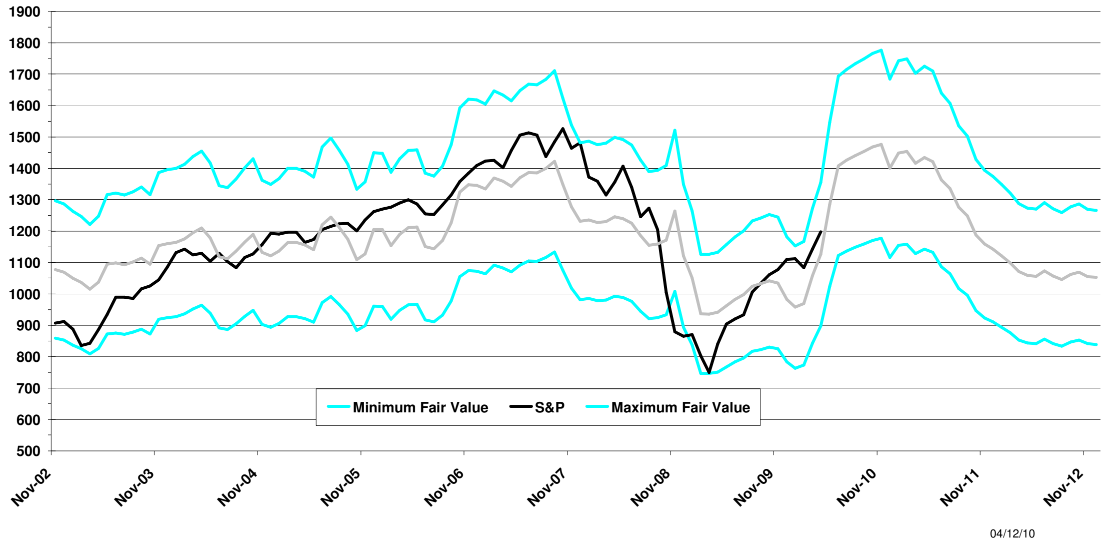
"Successful investment managers, as you know, buy from the fearful and sell to the greedy. Really successful managers anticipate the change in sentiment by divining prospective likely reported values of inflation and earnings."

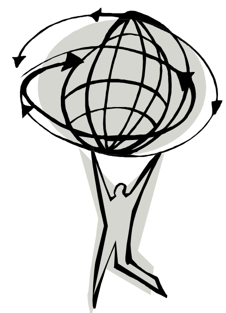
**Market Returns through 03/31/10**

| Index | 2008 | 2009 | YTD |
|---|---|---|---|
| **S&P 500** | -36.9 | 26.5 | 5.4% |
| **ML 1-10 yr Gov't/Corp** | 4.1 | 5.7 | 1.7% |
| **EAFE (Developed Mkts)** | -43.3 | 31.8 | .9% |
| **Emerging Markets** | -53.2 | 78.5 | 2.3% |

As much as the financial media would have you to believe that today's news explains today's movements in the financial markets, more thoughtful examination of cause and effect will attribute most of the important shifts in the value of financial assets to two fundamental, measurable, reported metrics: earnings and inflation. We have found that the value that we add to clients' investment accounts is directly proportional to the time and effort that we spend paying attention to the level and direction of these two economic attributes. Conversely, all of our stock research, all the attention we daily pay to economic minutiae, all our ceaseless efforts to absorb a never-ending stream of economic analysis, however insightful we might find it to be, unfortunately yields very little extra measurable benefit. Those of you who have been following our S&P Valuation model (whose only inputs are reported S&P earnings and the Consumer Price Index) have been witness to the credence that market participants give to hard, documentable facts. In the graph on the reverse, the middle (grey) line represents the historical central value that the S&P 500 is awarded at each month's given level of earnings and inflation. If earnings are going up and inflation is stable or declining, the assigned worth of stocks goes up. If inflation is rising and earnings are stable or falling, that value depreciates. In times of excessive optimism, enough greed is frequently engendered to drive valuations to a 20% premium (the blue line labeled Maximum Value). In trying economic circumstances, at the point of maximum pessimism, fearful investors sell in sufficient numbers to bring the market down to about 20% below fair value, (Minimum Valuation). Successful investment managers, as you know, buy from the fearful and sell to the greedy. Really successful managers anticipate the change in sentiment by divining prospective likely reported values of inflation and earnings. While a 20% variation around a relatively stable central value doesn't seem very excessive, in a world where millions of market participants suffer under the barrage of media pundits sensationalizing every bit of economic news, the swing from greed to fear that removes 40% of the markets' value comes with increasing rapidity and frequency.

The benefits of well contained labor costs and the improving market for corporate debt that is occurring in the context of a global cyclical demand recovery should ensure that the S&P earnings reports of $14, $16 and $17 over the last three quarters will be followed by $18 to $19 for the next two. Typically market participants get excited by that type of progress and extrapolate similar increases out to the foreseeable future increasing valuations (P/E's).



While the outlook for the US economy is marred by our failure to re-engineer our domestic productive resources in a way that would allow us to remain competitive in a newly industrialized world, multinational companies' profitability is not so constrained. Ultra competitive global labor markets, deregulation and central bank largesse have worked to tip the share of domestic GDP allocated to corporate profits (the line in the graphic below shows corporate profits as a percentage of GDP) to unprecedented levels. Despite resurging populist sentiment, this is unlikely to change anytime soon. Shareholders stand to benefit.