



CAPITAL MANAGEMENT, LLC

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By Steven M. Sheldon, CFA

About SMS Capital Management

SMS provides investment management services to individual investors desiring to preserve and build long-term wealth. As a fee-based firm, SMS has an independent, objective and sound approach to portfolio management. The firm is a Registered Investment Adviser.



About the Author

Steven Sheldon has more than thirteen years of professional experience analyzing and managing investments. Prior to founding SMS, Mr. Sheldon worked as a senior member of a corporate principal investments group. Mr. Sheldon has an MBA from Tulane University and a BBA from The University of Texas. In addition, he is a CFA charterholder and a member of both the CFA Institute and the Houston Society of Financial Analysts (HSFA).

Dancing With the Stock Market

Investors that stayed invested in the stock market following the correction in mid February and early March should be in a pretty decent mood right now. Since that time, the market has made some strong moves and had a pretty impressive performance. As of April 30th, the S&P 500's year-to-date return was 5.1% (including dividends), the DJIA is at an all time high, and the S&P 500 is within striking distance of its record. My, what a difference one month can make.

The upward strength and support for the market has been particularly apparent in large cap stocks. The DJIA (an index tracking some of the largest U.S. corporations) amazingly fell just three out of twenty trading days during the month of April with no signs of slowing down.

Is Everything Really That Great?

Shrugging off the "Sub-prime Meltdown" and other doomsday financial headlines was and continues to be no easy task. The housing slowdown is indeed a real threat to the current economic expansion. One needs to just look at the first quarter GDP for evidence. According to the government data, the U.S. economy grew at an anemic annualized rate of just 1.3% in the first quarter, down from 2.5% in the fourth quarter of 2006. The residential housing sector was the primary culprit for the slowdown.

Thus far, those predicting an imminent end to U.S. consumer spending and a meaningful slowdown in corporate earnings growth have been as wrong as those fingering Billy Ray Cyrus for an early exit from "Dancing with the Stars". Consumers keep on spending, corporations keep on churning out record profits, and the "Achy Breaky" man keeps on dancing his way into our living rooms (two out of three ain't bad).

Can you say "Goldilocks"?

Low interest rates, a strong job market, and once again, better than expected earnings, have provided enough support for the economy to offset the housing doldrums. Given this "not-too-hot and not-too-cold" backdrop, the stock market should log further gains the remainder of the year. Further, corporate buy-backs of stock and mergers and acquisition deals have been reducing the supply of stocks, and resulting in higher prices.



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At this pace, my earlier forecast for the U.S. stock market (measured by the S&P 500) to be up around 12% this year, including dividends, might turn out to be low. However, I would not be surprised to see another mild pullback, perhaps over the summer months, as the market digests these recent gains. Undoubtedly, Wall Street's mood will swing as more concerns about the economy resurface. However, trading in anticipation of this potential correction is too difficult. Investors should continue to overweight U.S. and foreign large cap stocks which will hold up better in a pullback and offer an attractive risk/return profile at this stage in the economic cycle.

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