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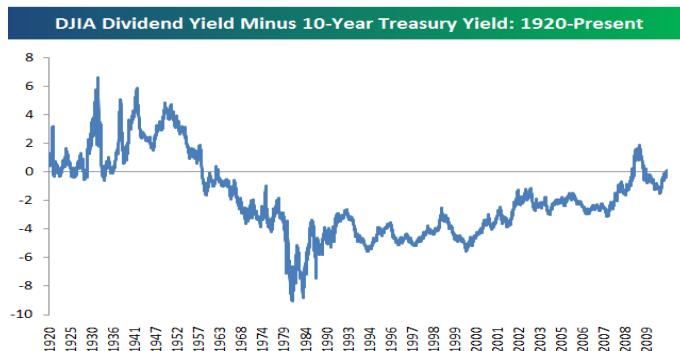
In the absence of any real significant economic news, merger announcements took the limelight. While much has been made of cash residing on the balance sheets of corporations, investors have been waiting to see how it is used to enhance shareholder value. Certainly share buybacks and dividends are two ways of “paying” shareholders, but acquisitions if both opportunistic and accretive are another. The fact that several sizeable deals were announced last week can be viewed encouragingly. Businesses would generally be reticent to part with large chunks of cash were economic prospects deemed so poor that profits would be impaired. Instead, deals such as mining giant BHP Billiton’s \$39 billion overture to acquire fertilizer-manufacturer Potash and Intel’s near \$8 billion deal to buy network security firm McAfee might spark investors’ enthusiasm for stocks, as they could signal the opportunity to grow exists even in today’s spotty economic climate. The Dow Jones Industrial Average chose to take its cue from the soft manufacturing data reported by the Philadelphia Fed along with the release of the Leading Economic Indicators (LEI) which rose a modest 0.1%, rather than the week’s M&A action. The Dow lost 90 points or 0.7% for the week, to close at 10,214. Meanwhile, Treasury securities continued to attract buyers which pushed the yield on the 10-year bond to its lowest level in seventeen months. The 2-year Treasury closed Friday at a historic low yield of 0.49%.

INDEX	WTD	YTD	1-YR
DOW JONES	(0.7)	(0.3)	12.2
S&P 500	(0.7)	(2.7)	8.5
S&P 400	0.3	2.3	15.5
RUSSELL 2000	0.2	(1.6)	8.8
MSCI EAFE	(1.2)	(7.2)	1.7
MSCI EM	0.8	1.6	20.7
TYPE	CURRENT	12/09	12/08
3 – Mo TREASURY	0.15	0.07	0.08
2 – Yr TREASURY	0.49	0.81	0.76
10 – Yr TREASURY	2.61	3.58	2.21
30 – Yr TREASURY	3.66	4.49	2.68

SOURCE: BLOOMBERG AS OF 8/20/2010

Numerous articles have surfaced recently debating whether there is a bubble in the bond market. Clearly, bonds and bond funds have been the recipient of most of the outflows from near-zero percent yielding money market funds. In the meantime, stocks have been neglected to the point where comparisons to bonds would seem to favor stocks. In our opinion, the decision point is hinging upon investor confidence, or the lack thereof, rather than value. The chart below shows that the yield on the Dow Jones Industrial Average – an index comprised of 30 great American companies including three AAA-rated franchises - is greater than the coupon on a 10-year Treasury bond.

Though not without precedent, it is certainly a rare phenomenon. While that alone might suggest stocks are attractive, when one inspects the list to find 15 of those companies yielding around 3% or more, for investors looking for income, it would seem to deserve even more interest.



Source: Bespoke Investment Group