JCM Johnson Capital Management

May 5, 2009

Greetings from Johnson Capital,

With tax season behind us, and the summer months approaching, I hope this letter finds you well. Although it has only been two months of gains on the broader stock market, I am glad to be able to write with a guardedly optimistic view.

Month in Review
April continued the rally that began in March. The month put up a return of 8% on the S&P 500 index. Yet, year-to-date (April 30) the index is still down 6%. Although it was a strong month for the market, gains were not necessarily easy to obtain. Industries and sectors went quickly in to or out of favor. That being said, I am proud to report that year-to-date, all portfolios are outperforming their respective broader market indices.

The Economy
On April 29th the Bureau of Economic Analysis (BEA) issued its *advance* (I italicize 'advance' because a revised report will be released in May) report on gross domestic product (GDP). GDP is an important economic measurement because it is used to help gauge the health of the economy. A weak economy generally means lower corporate profits which ultimately lead to lower stock prices. Real GDP, according to the *advance* report, declined 6.1% on an annualized basis. To help you better understand, GDP is calculated as the change in consumption, government spending, investment, and net exports from one period to the next. So, this *advance* reading states that the US economy shrank 6.1% on an annualized basis, whereas fourth quarter 2008 GDP declined 6.3%.

My Thoughts
In the March newsletter I mentioned that earnings season was upon us. As I write this we are about half way through earnings season and overall it has been pleasantly surprising. In the January newsletter I illustrated how the stock market and its participants have a tendency to act irrationally by being either overly optimistic or excessively pessimistic. I point this out because analysts, before a company announces its earnings, release estimates of what they feel the given company's earnings will be. The majority of analysts acted overly pessimistic, thus allowing many companies to meet or exceed expectations, thus leading to the gains realized in the month of April.

The Silver Lining
With the slight up tick in GDP relative to the fourth quarter of 2008 (although its still a poor reading), corporate earnings not quite as bad as expected, and the stock market seeming to come off the bottom, I am becoming optimistic, albeit cautiously, about the future. While individual stocks have still been hard to pick for the near term, the long term outlook is becoming less cloudy.

Wrap Up
As always, if you have any suggestions to help make this newsletter more valuable, any topics you would like addressed, or have any other comments, please send me an e-mail and I will do my best to address these issues.

Warmest Regards,

Jesse L. Johnson

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