

September 12, 2010

Arcataur Capital Management, LLC
826 North Plankinton • Suite 300
Milwaukee, Wisconsin 53203

414 225.8200
FAX 414 225.0043
www.arcataur.com

Despite volatility, money manager says stocks may be the best choice

By KATHLEEN GALLAGHER, kgallagher@journalsentinel.com



Smetek

Like tech stocks in the late 1990s, bonds just keep getting better.

Risk-averse institutional investors and yield-hungry individuals, who seemingly have nowhere else to go, are pouring money into bonds and paying no attention to stocks, said Milwaukee money manager Ignatius L. Smetek.

"The benefits of stocks are being ignored because people are worried about what happened two years ago," said Smetek, president and chief investment officer at Arcataur Capital Management LLC.

Yet companies, banks and individuals - everyone but the government - are getting rid of debt. Deferred purchasing is stoking pent-up demand. Interest rates have fallen and corporate earnings have been good.

Sure, stocks might remain volatile for another 12 months or so, Smetek said. But budding merger-and-acquisition activity, stock buyback programs and dividend increases should help offset the market swoons that often occur in September and October. Still, there's nervousness about the coming mid-term elections, whose outcomes are likely to affect the mood of investors.

Investors also are worried about deflation after wringing their hands over the possibility of inflation just six months ago, Smetek said.

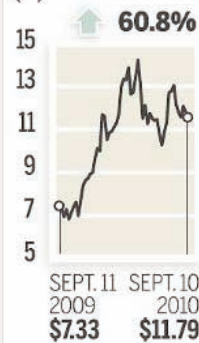
Looking past shorter-term volatility, however, he sees more potential in stocks than in bonds.

"I look at the fundamentals and valuations and say, 'If I can look out a year's time, stocks in general are undervalued and fixed-income securities, especially long-dated ones, are carrying some risk,'" Smetek said.

Job growth is the catalyst the stock market needs, he said, but employment probably won't improve meaningfully until the first quarter of 2011. So now may be the time to seek out some of the opportunities.

Technology companies such as Apple Inc., Cisco Systems Inc., Microsoft Corp. and Oracle Corp. have some of the strongest balance sheets, with high cash levels and little debt. Higher-

Ford Motor Co. (F)



Graphic/Journal Sentinel

quality financial firms like JPMorgan Chase & Co. and Wells Fargo & Co. are well-positioned, Smetek said.

Economically sensitive companies with attractive valuations also are expected to benefit from an improving economy, he said.

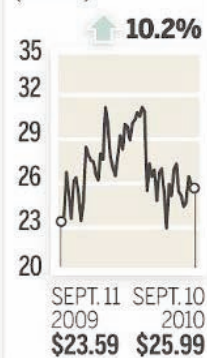
Ford Motor Co. (F, \$11.79), Dearborn, Mich., has survived without a government subsidy.

Smetek said he hasn't bought an automaker's stock in a decade, but Ford is paying down its debt with cash flow and has benefited from competitors' troubles by getting similar reductions in labor and other

costs. Ford shares have a 52-week range of \$14.57 to \$6.61.

Dow Chemical Co. (DOW, \$25.99), Midland, Mich., has transformed itself into more of a value-added, and less of a commodity-oriented, company. Dow has strengthened its balance sheet through shrewd moves that prepared it for the next economic upturn, Smetek said. Its shares have a 52-week range of \$32.05 to \$21.84.

The Dow Chemical Co. (DOW)



Graphic/Journal Sentinel

The biggest risk Smetek associates with Ford and Dow is the possibility the economy could fall back into recession, or that it could grow so slowly there's no meaningful improvement for a long time.

Barring that, both stocks could return as much as 25% in the next 12 months, and potentially double over the next three years, he said.

About this

The Journal Sentinel focuses on one Wisconsin money manager or analyst in this weekly feature, looking at a trend that helps investment pros make their decisions.

This column examines one stock through the eyes of a professional investor to show how market pros make investment decisions. Neither Kathleen Gallagher nor the Journal Sentinel recommends specific investments or endorses the recommendations of those interviewed.

From the September 12, 2010 editions of the Milwaukee Journal Sentinel