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Dr. BOB FROEHLICH

Senior Managing Director, The Hartford Mutual Funds



GOOD, BETTER, BEST...

You're probably filling in the rest of that quote in the title right now. For all those young Generation Xers out there who haven't heard this one, it goes like this: "Good, better, best. Never let it rest. 'Til your good is better and your better is best." Those are certainly words to live by, and I'm willing to bet that every baby boomer has repeated that verse a few thousand times or so in their lives.

Even though many people sing that quote, few—if any—realize exactly whom they're quoting. It's actually attributed to St. Jerome, who lived from 347 to 420 A.D. He's recognized by the Roman Catholic Church as a canonized saint and Doctor of the Church. He's also recognized as a saint by the Eastern Orthodox Church, where he's known as "Blessed Jerome."

No matter how you look at it, his expression is a saintly and blessed quote. Truly words to live by. But could they also be words to invest by? It really got me to thinking. Finally, it hit me: Even with all the gloom and doom in our economy and our markets, there are plenty of things that I'd classify as "good," "better," and "best."

Let me show you by starting with the good.

THE GOOD

From an investment perspective, two things are "good." The first is an inventory rebuilding that will actually boost productivity; the second is all the cash on corporate balance sheets that may be used to pay dividends. Let's focus on the inventory productivity issue first.

In this current inventory recession, the decline in inventory has been the greatest I've seen. In the inventory recession of 1982, we watched inventories decline for seven quarters at 3.4 percent. The inventory recession of 1990 saw inventories decline for four quarters at 1 percent. In 2001, the inventory recession lasted five quarters, and inventory declined 2.7 percent. This current inventory recession started in 2007 and lasted nine quarters, during which we saw a decline of 8.9 percent, making it both the longest and deepest decline in inventories in my 33-year career. It's

the reason there was nothing left on the shelves after this holiday shopping season.

So what does this have to do with productivity? Plenty, in my opinion. Inventory has to be rebuilt, meaning our economy, as a result, gets stronger. At the same time, employment remains weak; witness the December employment drop of 85,000 jobs. The combination of the economy getting stronger (because we're rebuilding our inventory) and weak employment will result in especially strong productivity. Over the last two quarters, productivity has been off the charts. In the second quarter of 2009, it was up 6.9 percent. In the third quarter, it was up an unheard-of 8.1 percent. When fourth quarter productivity numbers are released, look for a headline number above 6 percent again. Remember: Nothing drives profits like productivity.

Let's take a closer look at the second element I would classify as "good," namely cash on corporate balance sheets that may be used to pay dividends. Here's the deal: There's more cash on corporate balance sheets today than at any time in the past two decades. The percentage of cash to all assets on corporate balance sheets today is above 12 percent. Twenty years ago, it was 6 percent. Ten years ago, it stood at 9 percent. How did this happen? Downsizing, layoffs, and massive cost-cutting. Corporate America didn't spend money on anything. If you needed a paper clip, you needed to steal it from your child's school supplies and bring it to work! Talk about things going full circle; I remember a time in corporate America when one of the problems was employees stealing office supplies to take home for their

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children to use at school.

I believe that, in addition to finally buying paper clips with all that cash on the balance sheets, corporate America will also use a good deal of that cash to both establish and increase dividends. The dividend stock story is one of the great stories of 2010. After all, it made it into my Top 10 Investing Themes for 2010 (#8: Pay Me Now and Pay Me Later). I probably should've placed it higher on my list.

Here's why this is such a great story right now: For the past two decades, if you wanted to find a dividend-paying stock that paid more than the current yield on a 10-year Treasury bond, the pickings were pretty slim. On average, only 26 of the 500 companies in the S&P 500 would've paid you a dividend yield above that on the 10-year Treasury bond. That works out to a little more than five percent of the S&P 500.

Today, almost 15 percent (72 companies) of the S&P 500 will pay you a dividend yield above that on the 10-year Treasury bond. Talk about a good deal—I'm not sure this could get any better!

Unless, of course, we talk about manufacturing and China trade.

THE BETTER

So, we're done with the good and moving on to better, where I want to focus on both manufacturing and China trade. Let's begin with manufacturing. No matter where you look or how you measure it, manufacturing is booming. As a Chicago guy (with Pittsburgh roots), let me start in Chicago.

Chicago's business index, the Institute for Supply Management (ISM), soared 3.9 points in December to 60. That's the highest reading in two years. By the way, anything above 50 is considered positive. Explosive new orders fueled the uptick in this regional manufacturing gauge.

Meanwhile, in the overall United States, the U.S. Manufacturing Purchasing Managers Index (PMI) for new orders surged to 65.5 percent. Again, remember that anything above 50 percent is considered bullish. And I almost forgot to mention that, at 65.5 percent, the U.S. Manufacturing PMI was the strongest in the world! That's right, the strongest in the *entire* world. India was next, as its Manufacturing PMI soared to 61.1 percent. China came in at 59.1 percent. You may want to think about this for a minute—U.S. manufacturing beating both India's and China's!

Next up from the manufacturing front was Brazil at 57.8 percent. The United Kingdom's Manufacturing PMI came in at 57.4 percent. Japan recorded 55.2 percent for their Manufacturing PMI. One more time: Anything above 50 is extremely bullish. Rounding out this global manufacturing boom are France, whose Manufacturing PMI was 54.7

percent, Germany, with a Manufacturing PMI at 52.7 percent, and finally Italy, which just eked its way above the magical 50 threshold by logging in at 50.8 percent. What could be better than that?

How about trade in China—my second in the “better” category?

Exports in China rose 17 percent in December, logging in at \$131 billion. That was the fifth-straight monthly gain. By the way, in December 2008, exports in China were down 20 percent. Meanwhile, on the other side of the trade equation, imports were also up. Imports rose 56 percent in December 2009, at \$112 billion—the third-straight monthly increase. Imports in China were down more than 200 percent in December 2008.

To understand what's happening in China trade is to understand what's happening in the global economy, as China is the real key to the global-growth story. One more thing about exports: China has now officially overtaken Germany as the number one exporter in the entire world. In case you're keeping score, the U.S. is number three. I don't expect China to lose that top ranking as long as anyone who's reading this commentary today is still alive. As China goes, so goes the world. It simply doesn't get any better than that, unless, of course, we're talking about our global synchronized stimulus of monetary and fiscal policy.

That clearly is the “best” we could ever hope for.

China has now officially overtaken Germany as the number one exporter in the entire world.

THE BEST

We're done with the “good,” and have finished the “better,” so there's nothing left but the “best.” Global synchronized stimulus comes in two forms: monetary policy, in which a country lowers interest rates, and fiscal policy, in which a country spends money on infrastructure, cuts corporate or personal taxes, provides safety nets to housing or other industries, or steps up with government guarantees. I'm going to focus on both types of stimulus, beginning with monetary policy.

Now, you need to understand that when a country cuts interest rates to help its economy grow, it doesn't happen the month they actually cut interest rates. It has a delayed impact of six to nine months; some think it takes as long as a year for interest-rate cuts to make their way into the economy. If that's the case, we need to look at monetary policy in 2009 to figure out what's going to happen in 2010. I'm sure you've already guessed it by now—it was simply the “best.”

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In 2009, 43 countries were still cutting interest rates, which will help drive their economies in 2010. In North America in 2009, Canada cut rates 125 basis points, while Mexico cut rates 375 basis points. In South America, Chile cut rates 775 basis points,

Peru cut rates 525 basis points, and Colombia and Brazil each cut rates 500 basis points.

Outside of the Americas, in Europe, Sweden cut rates 175 basis points, the United Kingdom cut rates 150 basis points, Moldova cut rates 900 basis points, Denmark cut rates 240 basis points, the European Union (which is multiple countries that I'll just count as one) cut rates 150 basis points, Norway cut rates 175 basis points, Turkey cut rates 775 basis points, Switzerland cut rates 25 basis points, the Czech Republic cut rates 100 basis points, Slovakia cut rates 175 basis points, Iceland cut rates 600 basis points, Kazakhstan cut rates 350 basis points, Latvia cut rates 200 basis points, Poland cut rates 150 basis points, Serbia cut rates 575 basis points, Hungary cut rates 200 basis points, Romania cut rates 175 basis points, and the Ukraine cut rates 175 basis points.

In Asia, Thailand cut rates 150 basis points, New Zealand cut rates 250 basis points, India cut rates 275 basis points, Malaysia cut rates 125 basis points, Taiwan cut rates 75 basis points, South Korea cut rates 100 basis points, Indonesia cut rates 275 basis points, Australia cut rates 125 basis points, the Philippines cut rates 150 basis points, Sri Lanka cut rates 250 basis points, Russia cut rates 250 basis points, Vietnam cut rates 150 basis points, and Pakistan cut rates 200 basis points.

In the Middle East, Israel cut rates 175 basis points, Saudi Arabia cut rates 50 basis points, and Jordan cut rates 100 basis points. Rounding out the 43 countries in Africa, we had South Africa cutting rates 450 basis points, Egypt cutting rates 325 basis points, and last but not least, Mauritius (off the coast of Africa) cutting rates 100 basis points.

That's simply the best monetary policy you could wish for in 2009 to help us in 2010.

Finally, let's look at fiscal policy. Again, even things that were committed to in 2009 may not impact the global economy completely until 2010. I believe one of the best ways to assess countries' fiscal policies is by comparing them to their overall economy. In other words, don't tell how much they're spending, but rather what percentage of their overall economy they're spending, as measured by gross domestic product (GDP). The International Monetary Fund (IMF) has already done that for us.

I thought it'd be useful to look only at GDP for countries that, according to the IMF, are spending at least one percent of their economies. Using that as a benchmark, we have 18 countries. At the top of the list, we only have two countries in double digits: Saudi Arabia (16.0 percent) and, of course, China (12.1 percent). Malaysia and Mexico are next, at 8.6 percent and 6.5 percent, respectively. Three countries have committed at least five percent: the U.S. at 5.6 percent, New Zealand at 5.5 percent, and Hungary at 5.2 percent. Two more countries are at least spending four percent of their economy, with the Philippines at 4.4 percent and Argentina at 4.3 percent. There are three countries spending at least three percent of their economy: Australia at 3.5 percent, Germany at 3.4 percent, and Thailand at 3.1 percent. Three more are spending two percent, with Chile at 2.9 percent, Canada at 2.5 percent, and Japan at 2.2 percent. The final three spending at least one percent of their overall economy are the United Kingdom at 1.8 percent, South Africa at 1.5 percent, and Indonesia at 1.3 percent. Talk about good, better, best!

One more thing: Remember I said that this fiscal policy has a lagging impact, as well? I'll use the U.S. as an example. Of that 5.6 percent of GDP fiscal stimulus, which was \$787 billion, only \$347 billion (or 2.6 percent of GDP) has actually been spent so far. That means that, in the United States alone, we still have \$440 billion (or 3 percent of GDP) yet to come in 2010. Now that's what I call the best!

Let me end this commentary where I began: "Good, better, best. Never let it rest. 'Til your good is better and your better is best." Those are indeed words to live by—and words to invest by. Thank you, St. Jerome, and God bless.

The S&P 500 Index is a composite of the 500 largest companies in the United States.

The index is unmanaged and unavailable for direct investment.

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