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Rising economy likely to boost consumer, tech and financial stocks

Investment Trends

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Smetek

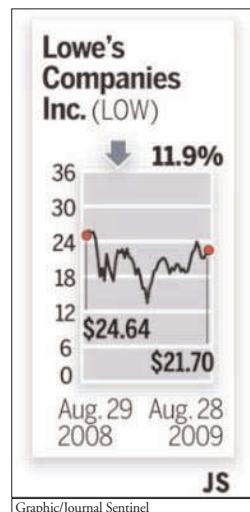
When he looks out over the next few quarters, money manager Ignatius L. Smetek likes what he sees.

U.S. companies are expected to have an easier time showing earnings growth, and Gross Domestic Product is “almost guaranteed to be favorable” this year, said Smetek, president and chief investment officer at Arcataur Capital Management LLC in Milwaukee.

The problem is what happens next.

“My biggest concern, from an investment perspective, is looking out nine months from now,” Smetek said.

The ballooning federal deficit makes inflation a very real threat, despite the current deflationary environment, he said. So Smetek and many of his peers are trying to figure out how economic



Graphic/Journal Sentinel

events will influence next summer's stock prices.

It will likely take more time and data to figure out whether the U.S. economy can avoid a double-dip recession and continue to grow, he said.

Smetek said he's shifting clients' portfolios from more-defensive stocks to areas such as consumer discretionary industries, technology companies and financial services, which are more responsive to an improving economy. But he's keeping a nervous eye on the possibility of a pullback.

“What's worked well, and will continue to work well, is minimizing companies living off leverage and focusing on those that are wellcapitalized, with strong balance sheets,

that give them the flexibility to opportunistically invest,” Smetek said.

Consumer discretionary names such as **Walt Disney Co.** (DIS, \$26.84), **Kohl's Corp.** (KSS, \$52.55) and **Omnicom Group Inc.** (OMC, \$36.89) would still be attractive on a market pullback, Smetek said.

He said he feels the same way about big technology companies like **Apple Inc.** (AAPL, \$170.05), **Cisco Systems Inc.** (CSCO, \$22), **International Business Machines Corp.** (IBM, \$118.22) and **Microsoft Corp.** (MSFT, \$24.68). “They're extremely well capitalized, with some of the most cash on their balance sheets,” Smetek said.

In the financial arena, strong players such as **Bank of New York Mellon Corp.** (BK, \$28.93) and **Charles Schwab Corp.** (SCHW, \$17.73) have gotten stronger, he said.

Lowe's Companies Inc. (LOW, \$21.70) operates home improvement stores throughout the U.S. The company's shares have traded as high as \$28.49 and as low as \$13 the last 52 weeks.

The steep decline in the housing market has held back Lowe's stock more than many other blue chip names in promising industries, Smetek said. But the company has continued to improve stores, take market share and maintain a strong balance sheet.

If you think the housing market is bottoming, Smetek said, this company is going to be tethered to that. Lowe's may also be a safer way to invest in a housing recovery than purchasing home builders' shares, he said.

The biggest risk Smetek associates with Lowe's is the threat of a change in economic sentiment that would raise interest rates and push housing into another downward spiral.

He said Lowe's stock could trade as high as \$28 if the economy can pull off a sustained improvement.

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.

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