



"Unequaled Personalized Service"

August 5, 2011

EBS's Current Thoughts

In light of yesterday's market action, we thought it timely to share a few thoughts.

- We **do not** believe this is a repeat of 2008. Issues then were largely due to a swift reduction in available credit (for a host of reasons). Corporations today are generally flush with cash; fundamentals are good and in many cases improving.
- Soft U.S. macroeconomic data-points of late are **likely due in part** to corporations and consumers being **mesmerized** by the debt limit debate in Washington. If this is true, otherwise routine economic activity was deferred, and better data-points may lie just ahead.
- Investor anxiety is high and valuations generally are reasonable. Our Research Group is starting to smile because of fresh opportunities, and our Consulting Services Group (folks who talk to clients) is beginning to sweat (not really). Typically a good combination!
- 61% of S&P 500 companies had reported 2Q11 earnings as of last Thursday (7/28) and **71% exceeded** analysts' estimates, only slightly below 2Q10's 75%. While not a perfect datum, it argues that market participants are only looking at one side of the equation.
- Of the roughly 7,000 public companies reporting dividend data to S&P in 2Q11, those raising dividends **increased 33%** relative to 2Q10. Dividend **increases** are typically a sign of corporate confidence.

Acknowledging the many challenges, like European sovereign debt and U.S. fiscal issues, we believe solid corporate fundamentals coupled with reasonable valuations will lead to favorable results in the coming quarters. While more market-drama is possible in the near-term, earnings drive share prices long-term and we are generally optimistic for earnings / cash-flow. However, if economic softness persists, the average public company should be well positioned financially. Importantly, their leanness can provide tremendous operating leverage when uncertainty gives way to economic strength. Despite all the seeming political dysfunction, the resiliency of our country and the growth and modernization of emerging countries should bode well for a rising tide of long-term earnings.

As always, thank you for your trust and confidence. Please don't hesitate to call with questions, comments or both.

Sincerely,

Eubel Brady & Suttman
Asset Management, Inc.