From the Desk of John Colley ...

Forecasters surveyed by the Wall Street Journal (this week) expect our U.S. economy to grow at a modest, but sustainable rate of 2.3% to 2.9% for the rest of 2012. The earlier forecast (done as of December 31, 2011) put GDP growth in the 2.5% to 3.0% range but with a bigger range of 2.0% to 3.5%. Not much change, except some were hoping for a positive surprise and more traction on job growth and spending. The possibility of falling back into a recession was seen as remote, as only 15% thought it was even possible.

The jobless rate isn't seen moving very much as job losses and gains seem to offset themselves in alternating months. Also, some point out that some workers have gone off the rolls altogether and aren't counted in the net anymore. The current jobless rate of 8.1% in April could remain flat-lined unless QE2½ or QE3 popped up (an unlikely occurrence given political gridlock) to help stimulate the economy.

Corporate America has done its part to create a few smiles as 85% of Corporate America met or beat the Street expectations in first quarter results. This doesn't tell the whole story as forward guidance was less certain and clouded, in part, by Eurozone variables and gridlock in Washington, D.C. politics.

The sag in stocks shows the lack of short-term conviction or follow through to carry stock prices higher ... as the slump shows that basing and consolidation are the current balancing steps that are necessary in finding "middle ground".

What do we notice and see happening:

1. Trading volume swells as markets open and approach closing (first hour and last hour of trading). More often, the direction of the move reflects the bearish or bullish sentiment of that day (driven by headline news). Corporate results, JP Morgan's problems get amplified and the Eurozone seems to dominate the headlines of late.

2. Selling volume slows down during the day and we see rally fill-in's and trading pauses ... but the catalysts have been headline noise that spark trading direction. Some contend that this is a sign of a "bored" market, but income opportunities do exist.

3. Interesting to reflect during the first quarter of 2012 the U.S. stock market enjoyed two out of three "up" days on news that was mostly upbeat. The numbers and fundamentals were there.

4. However, since March 31, 2012 (end of first quarter), the U.S. stock market has been "down" two out of three days (the reverse of the first quarter) and the selloff seemed triggered by worries, unknowns, and cloudy numbers. The Eurozone focus also dominated.

5. Take-away... The Eurozone challenges and woes were still present in the first quarter, but focus was directed to the numbers and metrics which made the case for an intact recovery that is modest and somewhat irregular. *<u>Not to panic</u>, but the tug-of-war continues.*

JC
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