JOHN DESSAUER'S OUTLOOK

John Dessauer's market review and update as of Wednesday June 24, 2009.

The global economy is a mixed bag of results. The recession is getting worse in Japan and Europe. China's growth is accelerating and India is picking up speed. For good reasons investors remain cautious. The long term outlook is for stocks to beat bonds. But stocks must be carefully selected and priced right before buying.

On Monday the World Bank revised its outlook for the global economy. This Washington DC based bank now sees the global economy contracting 2.9% this year. That is down from their earlier forecast of a 1.7% contraction. That was enough to send stock markets in Europe and the United States down on Monday. This morning the OECD, Organization for Economic Cooperation and Development, did the opposite and revised its outlook for the better. The OECD now sees the 30 member economies contracting 4.1% instead of 4.3% as predicted earlier. The difference in is due to the emphasis the OECD survey places on the United States. The OECD sees the recession winding down sooner in the United States. Both the World Bank and the OECD economists see a slow and fragile recovery developing and a return to growth next year. The World Bank predicts the global economy will grow 2% next year. The OECD sees its member economies growing less than 1% in 2010. Put the two reports together and we get a snapshot of the global recession.

The United States, for all its problems, is doing significantly better than Japan. The United States is expected to contract 2.8% this year and the trend is getting better. In Japan the economy is still sinking and is now expected to contract at a 6.8% rate.

Likewise the United States is doing better than Europe. The euro region is now expected to contract 4.8% this year and that is worse than the 4.1% predicted in March.

Our media focuses on the United States. We have been getting mixed reports on our economy. Sales of existing homes for example are up, but house prices are still falling. A report on economic activity from the New York Fed was disappointing but a similar report from the Philadelphia Fed was quite encouraging. Orders for durable goods jumped 1.8% in May surprising economists and matching a similar gain in April. Our Federal Reserve said today that the pace of the decline in the United States is slowing but the economy will remain weak for a time. Short term interest rates were not changed. When all the pieces are put together the United States is looking better than Europe or Japan. Inventory liquidation has just about run its course and our recession is just about over. Both Europe and Japan are lagging behind and neither has a clear sign of their recessions winding down. That is why the U.S. dollar has been so stable even though Washington has been selling a record amount of debt. Pessimistic pundits have been predicting a steep dollar decline that would force interest rates higher and blunt the recovery. They forget that for the dollar to go down other major currencies, the euro and the yen would have to go up. Given the better U.S. fundamentals, that is unlikely.

The emerging economies are doing best of all. Growth expectations for China have been raised to 7.7%. And for India they have been raised to 5.9%. Growth in emerging markets, especially India and China, is very good news. It means that companies doing business in those markets have opportunities for growth. One such company is **Nokia, NYSE, NOK, $14.80.** World wide Nokia has about 37% of the market for cell phones. But in the lower priced models that are currently popular in emerging markets Nokia has a 50% market share. Nokia's profits have been hurt by the recessions in Europe, Japan and the United States. Demand for more expensive phones has declined. But that will change. Even in a modest recovery Nokia will enjoy rising demand. That is clear from what is happening at the major service providers in the United States. Demand from smart phones is gobbling up capacity at Verizon and AT&T. There is a bright future for wireless technology. **Intel, NASDAQ, INTC, $16.18** sees a bright future in wireless. Intel and Nokia have joined forces to create a new type of mobile computing device that will take today's smart phones and notebooks one or two steps further. This is exciting for both companies. These are the type of companies to own for the long run. They will profit from growth in emerging markets and from an economic recovery in the developed economies. I rate both Nokia and Intel as buy.

Bank of America, NYSE, BAC, $12.55 placed 1,000 bankers in Merrill Lynch offices and raised $5 billion in new deposits in the month of May. That $5 billion gain in four weeks compares with a $9 billion gain in the entire fourth quarter. Raising billions in deposits means that Bank of America's earnings will get a big boost thanks to the wide interest rate spreads. The interest rates on Certificates of Deposit are still very low and likely to stay that way. Rates charged by the bank on credit cards, loans and mortgages are significantly higher. The difference adds to Bank of America's net interest income and profits. Bank of America is wasting no time taking advantage of the opportunities offered by the acquisition of Merrill Lynch. Morgan Stanley is impressed and has raised earnings estimates and says Bank of America is their top pick among the large banks. Morgan Stanley expects Bank of America to earn $0.52 a share this year and $2.64 in 2010. I am pleased to see Morgan rate the stock a buy. But I think it is too soon to add to holdings of Bank of America. There are still uncertainties about loan losses in the next quarter or two while the unemployment rate is rising. I am keeping my hold rating on Bank of America.

Wyndham Worldwide, NYSE, WYN, $12.03 jumped up more than $1 a share last Friday after management reaffirmed guidance for the second quarter. The guidance is for earnings between $0.36 and $0.41 a share. Wall Street analysts have been expecting earnings of $0.37 a share. It looks like Wyndham will beat expectations again this quarter. For all of 2009 Wyndham now looks headed for $1.85 a share or slightly better. The stock at 6.5 times this estimate is very cheap. Wall Street does not like the timeshare business. It has become more difficult to get financing for time share purchases. Time share activity however, remains robust because time share offers less expensive vacations. But sales of time shares are not likely to pick up until unemployment peaks and starts to come down. The major attraction with Wyndham is the international expansion especially in China. That is where the growth opportunities lie. Wyndham's balance sheet is in good shape. Cash flows remain strong and there is a small dividend. I see Wyndham as undervalued and rate the stock a buy. There is a market risk with Wyndham. The stock is likely to follow the market. Buy the stock on weakness. Buy below $11.

One week from today on Wednesday July 1, 2009 I will send you the July issue of my newsletter.

All the best,

John Dessauer