



**Thursday, February 10, 2011**

**Unleash the Cash!**

Cisco Systems reported disappointing earnings last night and the stock opened 10% lower this morning. They also announced that they have \$40 billion in cash and equivalents on their balance sheet. This is dwarfed by the \$78 billion in cash held by GE and a reminder of the strength of corporate America which currently has 7.4% of assets stashed away in short term liquid investments (cash, money market, short-term treasuries) - the highest level since the 1950's. This number does not include other marketable securities (longer maturity bonds and/or equities) which, if added, would showcase an even stronger position. For example, while S&P reports that Apple has \$25.6 billion in cash, if you add all marketable securities the total is \$51 billion.

Back in December, President Obama met with CEO's of 20 major U.S. companies in an attempt to address this question specifically: what will it take to get that money employed productively in the economy creating jobs and growing business?

Part of the answer lies in CEO confidence which lagged following the "Great Recession" due to uncertainty regarding the regulatory environment and the sustainability of recovery. However, confidence numbers have been trending sharply higher for some time now. As a result, we are seeing a big increase in Merger and Acquisition activity which started 2011 at the highest levels in 10 years. Important headlines include the news that the Deutsche Boerse is in discussions to buy the NYSE and also the London and Toronto Stock Exchanges are having merger talks. Recent M&A activity is a mix of strategic deals seeking long term growth opportunities (many are cross border transactions) and industry consolidation in fragmented sectors needing restructuring - like banking in the U.S.

Cash is also being used for stock buy backs and dividend increases both of which will enhance shareholder value. In 2009, 152 companies in the S&P 500 increased dividends while 72 cut them. In 2010, 235 S&P constituents raised their dividends with only 5 reducing them. This year is likely to be even better with companies resuming a more normal operating posture. The "more normal" rather than "new normal" environment of 2011 also means accelerating stock buybacks with over \$34 billion worth announced by the end of January.

As previously noted, employment trends are improving meaningfully with unemployment declining by over .4% in both December and January to the current level of 9%. In today's news, initial jobless claims for last week fell to the lowest level in 2 1/2 years. Encouragingly, the National Association for Business Economics survey from January 24th reported that 35% more businesses planned to hire workers in 2011 than those expecting layoffs. This is the highest reading since 1998.

As in my commentary last Friday, I would like to make a couple of notes on the local front. In that piece, like many excited residents of the Southern Berkshires, I speculated about the potential value of the proposed Housatonic redevelopment. In my fervor, I used a range that may, or may not, be close to the ultimate cost. It is simply too early in the process to tell what the number may be. Having said that, the prospect of quality development by people with a successful track record is great news for all of us in the Berkshires and we wish them well.

Lastly, somewhat overshadowed by last night's vote in favor of the Great Barrington Main Street project was the news that the town also voted to be included in the preliminary process by which the "WiredWest" seeks to create a co-operative to build and operate a future-proof fiber-optic broadband network throughout the 47 rural communities in Western Massachusetts which are either unserved or underserved by current providers. The long term economic impact of this development is substantial and, in combination with the possibilities in Housatonic, ongoing reason to be optimistic about growth in our community.

Regards,

Terry

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