



# NORTHWEST CRITERION ASSET MANAGEMENT, LLC

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Dear Client,

Below are brief notes about our investment activities and selected economic issues.

## **INVESTMENT PLANS**

- Since late July we have made a number of changes to the holdings in Mike's Picks. We sold Nucor at \$44.09, Ensco at \$37.60, Parker Hannifin at \$47.73, and Cummins Inc. at \$45.06. In doing so we booked both short-term losses and short-term gains in our taxable accounts. On the buy-side, we purchased Knight Capital Group at \$17.96, Endo Pharmaceuticals at \$21.37, Noble Corp at \$33.60, and Sepracor at \$18.03. We still have cash available in accounts to purchase additional equity picks. We also are considering adding an additional mutual fund to the current mutual fund mix.
- The equity markets have performed very well since hitting their lows in early March and the S&P 500 had its best July performance (+7.6%) since 1997. Although the summer doldrums are setting in and many people are fearful that the markets have come "too far, too fast", or that the markets will move sideways, we remain optimistic that our process will continue to identify good investment candidates at reasonable valuations.

## **OBSERVATIONS**

**Global GDP.** US Q2 GDP was reported as a better-than-expected -1.0% following a dramatic -6.4% Q1 report. Many analysts are now expecting positive growth for the second half of the year. China's Q2 growth came in at +7.9% on the heels of a +6.1% Q1 report. In Europe Q2 GDP reports from Germany (+0.3%) and France (+0.3%) were not only better than expectations, but were positive. One quarter of results does not make a trend, but these are signs that some of the largest economies in the world are starting to move in the right direction.

**Housing.** Another month has now passed with housing continuing to show improvements since the low points in January this year in both new home sales and existing home sales. Recently, Robert Toll, CEO of homebuilder Toll Brothers, said that improvements were being seen in their numbers and that inducements to buyers were able to be reduced.

**Banking.** Many would argue that without a recovery in our banking industry we cannot have a recovery. There has been a great improvement in the stock prices of many of our largest banking institutions over the past five months. The S&P 500 Financials Index hit a low of 81.74 on March 6<sup>th</sup> and closed August 21<sup>st</sup> at 196.13. Having said that, there is still a great concern about commercial real estate loans on the books of regional and community banks, and some analysts expect over 100 more bank failures before year-end.

**Health Care Reform.** The debate rages (to say the least) on health care reform. The fact that many Americans have raised their voices to effectively slow down this potentially very expensive process may be one of the factors contributing to the recent strength in the markets.

Thanks for giving us the opportunity to manage your portfolio and please contact us with any questions.

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Principal

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