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Umbrellas on Sale

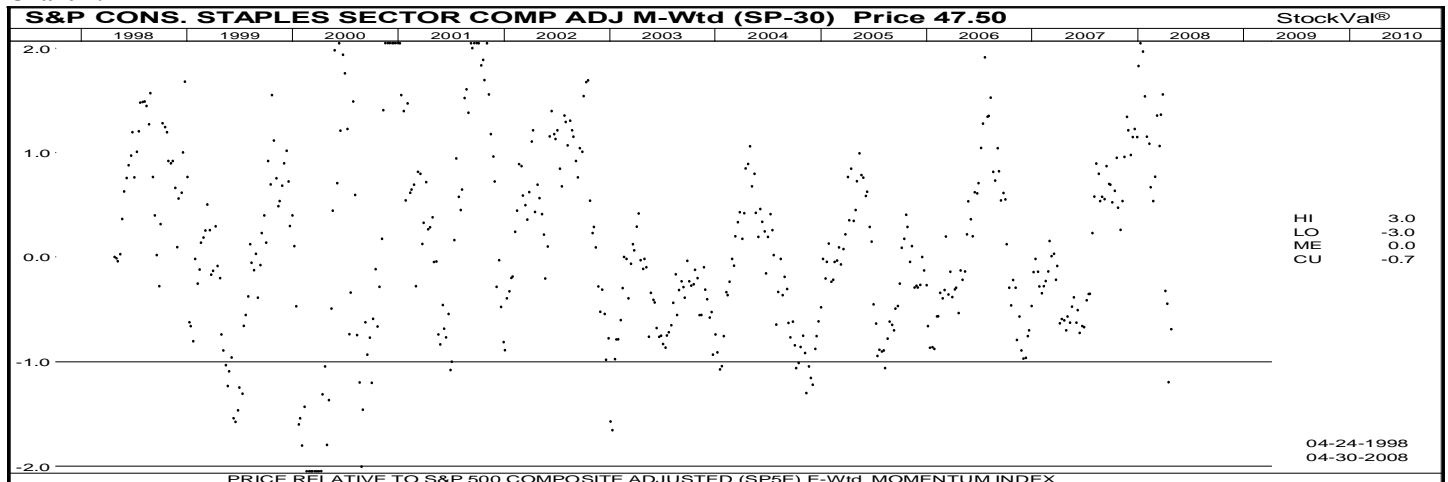
The growing consensus seems to be that we are currently in the trough of Recession and things will only get better from here. Investors are quick to believe that the monetary and fiscal stimulus initiated over the last year will be enough to pull us out of the credit crunch and offset the steep drop in home prices.

With the belief that the storm clouds are clearing and sunny days are ahead, investors have pulled away the sectors and stocks that typically provide safety during the storm. The consumer staple group has been one victim of the market's sunnier disposition and on a relative price basis is now stretched a full standard deviation to the downside. This suggests the staple group is due for a bounce.

Since the beginning of the year it has been our belief that the market would fluctuate wildly between pessimism and optimism as the economy flirted with recession. During these periods of excessive optimism or pessimism we have recommended going against the crowd and buying what was recently out of favor and selling the stocks everybody was buying. We think investors today are getting just such an opportunity. We don't know what brings the storm clouds back on the horizon, but we are pretty certain they will be back. We would use the recent extreme underperformance of the Staple group as an opportunity to buy umbrellas on sale.

A few of our favorite staple stocks include: CVS (CVS-N-\$40.37), Church & Dwight (CHD-N-\$56.82), Heinz (HNZ-N-\$47.03), Proctor & Gamble (PG-N-\$67.05), and Colgate Palmolive (CL-N-\$70.70). For those looking to implement a consumer staple position via ETF we would recommend the Vanguard Consumer Staple ETF (VDC-A-\$68.68)

Chart 1:



Charts Courtesy StockVal

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