CAPITAL
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Killer Bees Hit Wall Street

In 1957, twenty-six African queen bees, escaped from an experimental apiary about 100 miles south of Sao Paulo. Since their escape and subsequent breeding in Brazil they have killed over a 1,000 humans, with victims receiving ten times as many stings than from the European strain. Today, I wonder if those same bees are moving towards Wall Street…

Of course I'm kidding about the insects, but I am worried about how three particular "Bs" are affecting the stock market: Barack, Bernanke, and Beijing.

Ever since mid-January when Barack Obama announced his aspirations for more reform and regulation for our country's financial and banking system, the market has tripped and stumbled like a drunken sailor. From mid-January headed into Valentine's Day, we've seen the Dow Jones Industrial Average become increasingly volatile and at one point pull back over 8% - getting very close to an official 10% correction.

That being said, here's my take on the 3 "Bs":

Barack: The Obama administration continues to talk about increasing financial regulation, increasing government spending, and increasing taxes. That's casting a cloud over Wall Street, as all of these proposals spell more uncertainty for what businesses, both large and small, can expect over the next several years. When CEOs are fearful of tax hikes, healthcare mandates, and potential changes in regulation, they invest less and hire less. All of this creates a real headwind for the labor market and it will be difficult for stocks to move higher until we see more clarity… and maybe even "less government" from Washington.

Beijing: Over the past decade, China has blossomed into a global economic giant, and their economy continues to expand at a fevered pace (nearly 11% in the 4th quarter of 2009). The growth and urbanization of their more than 1.3 billion people has created a real estate boom within China, so much so that the government has had to take steps to curb lending, hoping to moderate economic expansion. There are already signs of a bubble, especially in commercial real estate. More than 22% of all office space in Beijing is already vacant and according to Chicago based real estate company, Jones Lang LaSalle Inc., more than 1.2

million square meters of new space will be added this year. If the world's strongest *growth* economy sneezes, the rest of the world may catch another cold before winter is out.

Bernanke: Fed chairman Ben Bernanke was recently appointed to his second term and has hit the ground running with a slue of possible policy changes. This past week, he laid out the first pieces of the Fed's plan to cut back on some of its massive liquidity measures in place since the credit crisis began almost two years ago. That process is slowly getting under way as the discount rate was raised to 0.75%, more a sign of stable interbank lending than anything else. Bernanke has said that we should expect a fed funds rate increase by the end of 2010, a sign that the Fed believes the recovery is taking hold in America. Much is left to be discovered, however, regarding how the markets will react as the government further moves to reel in liquidity and pay down debt.

Although these "3 Bs" clearly have a heavy influence on current market conditions, it is important to remember that these factors are only a small part of the recipe when determining the market's direction over the next 1, 5, or 10 years. For instance, there are plenty of bellwether companies with unstoppable, high-quality brands, such as McDonald's, Proctor & Gamble, and Altria Group that forecast *positive growth* into 2010 and also continue to pay healthy dividends.

Investors tend to place an enormous amount of emotion and concern on what Washington is doing, what the Fed may or may not do, and what may happen around the world and in important economic centers like China. However, much of the market's movement is derived from a *fear* about what *could* happen in these places, or just plain *uncertainty*. So the real sting for markets comes not from what Bernanke or Barack are doing, but what they *might* do. So let's settle the score before it even begins…Bernanke will continue helping along the economy with great precision and care, and Washington will continue to over promise and under deliver. With that in mind, remember this, strong capitalism will always overcome bad government. That's why the best strategy to avoid getting stung will be one that relies on owning only the highest quality companies that will continue to grow and prosper regardless of what the world throws at them.