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## Is The Trend Your Friend?



In recent newsletters, we cautioned investors to brace for a sideways market, re-examine expectations of future market returns, and view the markets with guarded optimism. So far, this has been on target: as of this writing (November 11) the S&P 500 Index stands at 1234.72, up 1.9% from year end. The market has certainly been rangebound, up 2.8% at its peak and down 6.3% at its nadir, meaning the market has stayed within a narrow span of 9.3 percentage points during 2005. And unfortunately, 70% of the time this year has been in negative year-to-date return territory.

Last week, the Federal Reserve raised rates for the twelfth consecutive time, a response to concerns about their accommodative stance overheating the economy and leading to excessive inflation. A recent *Barron's* featured snippets of five prominent money managers' views of the market: four were bearish and cited the negative impact of a higher interest rate environment on corporate profits and the tendency for

weaker markets. All of this prompts one question: when will this sideways trend end?

### SIGNS OF HOPE

But there are signs of hope. I would like to take a moment to highlight some positive observations we've made about the market in recent months.

**The overall market multiple of price to earnings (P/E) is declining.** We measure value in the market by determining how much \$1 of corporate earnings costs, just as consumers measure value by price per gallon, price per pound, or price per ounce.

At its peak in March of 2000, the S&P 500 traded at a multiple of 40 times earnings, meaning that to get \$1 in earnings from your average Fortune 500 company, you had to pay \$40 in stock price. Today, based on 2006 earnings estimates, the S&P is trading at just 15 times earnings, meaning \$1 of corporate earnings now costs on average only \$15 in stock price. What would you rather pay?

**Corporate earnings continue to grow.** S&P 500 companies are on track to post a 14 percent year-over-year quarterly gain. *That would mark a record 14th consecutive quarter of double-digit earnings growth for the benchmark index,* according to S&P.

When looking at both of these statements in tandem, we can make some powerful observations about our present market:

1. The first statement suggests that the cost of \$1 of corporate earnings is less than 1/2 what it was at its peak, meaning that stocks are over twice a better value than they were in 2000.
2. The second statement tells us how we got there—sure stock prices have been weak, but on average they aren't down 50%. In fact it's more like 10% as measured by the Dow. We arrived at a lower valued (and more attractively priced) market because at the same time stock prices have been by and large moving sideways, corporate earnings growth has accelerated!

Does this mean we should expect a market turnaround anytime soon? Not necessarily. But it does mean that the market is naturally flushing out its excesses. Thanks to high earnings growth (as opposed to more severe stock price drops), the carnage could have been worse and we are moving in the right direction—towards more fairly valued markets.

It also means that we are now seeing very good companies with consistent earnings growth at very reasonable prices, and we are the most interested and excited about opportunities in the equity markets as we have been over the past four or five

years. Our quiver of stock ideas is the fullest it has been, and opportunities continue to arise.

At the risk of being redundant, we are not suggesting jumping in the market with both feet. But rest assured, we are constantly reviewing your holdings and looking to incorporate the most currently attractive ideas, thereby best positioning your portfolio for future growth.

On behalf of every one of us, it is my pleasure to thank you once again for your continued trust over the past year. We value your relationship, and look forward to continuing to grow together. We wish you and your family the best of the holiday season and a happy, healthy New Year!

Joseph R.V. Romano, CFP®  
President

### Winter 2005

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## Putting the Faces to the Names

**Romano Brothers & Co.** would like you to get to know more about two staff members whose voices you most likely recognize when you place a telephone call to your financial consultant. Next time you call, you can ask Marcia how many pairs of running shoes she goes through in a year and you may want to know what Caryn is cooking up in the kitchen!

**Marcia Clancy-Jamieson, Receptionist**

“Good morning, Romano Brothers & Company. How may I help you?” You may recognize this mantra when you call Romano Brothers as expressed by a good-natured voice, with a slight Boston accent. Answering 95% of the firm’s telephone calls, Marcia knows how important it is for your call to be handled efficiently. Although the firm does have voicemail, Marcia realizes the importance of connecting you to your broker. She is often seen hustling through the halls to track down an investment advisor away from his/her desk, in order to put a call through.

Her quick feet may be the result of her passion for running. Marcia spends every lunch hour power walking the streets of downtown Evanston. Although she considers herself a “so-so” runner (this is debatable!), she wishes Evanston would reinstate the Evanston Express 10K run so that she could challenge Dick Romano, who is also an avid runner. Bets anyone?

Having joined the firm two years ago, Marcia thinks the best part of working for Romano Brothers & Co., in addition to the client contact, is having Robert Vallone, CFO, as her supervisor. “I have gained a tremendous amount of knowledge from a very patient and knowledgeable professor,” said Marcia.

As receptionist, Marcia must contend with some unusual phone calls on occasion. Frequently, someone trying to reach Romano Brothers — the liquor distributor — calls our firm by mistake. On one occasion, the caller requested her recommendations for the best Cabernet Sauvignon! With her usual grace and professionalism, Marcia offered her wine recommendation, and then



politely informed them that they had called the wrong firm.

Marcia’s outgoing personality and “can-do” attitude make her a valuable addition to the Romano Brothers & Co. staff.

**Caryn Okubo, Sales Assistant**

When asked, “What is the best part of working at Romano Brothers?” Caryn immediately responded, “Seeing Dick’s smiling face every morning as he tells me that each day is the best day of his life!” Not a bad way to start the day as the Sales Associate to both Dick and Joe Romano.

Caryn began her employment eight years ago as our receptionist, but accepted the Sales Associate position three years ago. A dedicated member of Joe and Dick’s investment management team, Caryn enjoys working with clients and making sure that all matters are attended to promptly and professionally.

When Caryn is not at the office, she enjoys the challenge of creating her own recipes from ideas she has gleaned from the many cookbooks and gourmet magazines she reads.

“I have always enjoyed cooking; not necessarily following recipes, but gathering ideas and whipping up dishes that are delicious and also nutritious.”

Caryn is an avid gardener as well. “I used to grow a wide variety of vegetables, but after many trials and errors, I’m happy with a simple garden, growing tomatoes, cucumbers and peppers.” It is with the same nurturing spirit and attention to detail that Caryn approaches her work at Romano Brothers & Co.



OUR FIRM:

## Firm Hires Chief Administrative Officer



In a newly created position at Romano Brothers & Co., Grace Garby joined the firm in May 2005 as the Chief Administrative Officer.

“We are pleased to have Grace join us. In this new position, she will oversee all Administrative and Human Resource functions of the firm,” said Joe Romano, President.

Grace was previously Manager of Operations and Administration and Chief Compliance Officer of Lincoln Equity Management, LLC (formerly Lincoln Capital Management) in Chicago.

A Chicago resident, Grace is a member of the Chicago Chapter of Women in Pensions and President of her condominium association. Ms. Garby earned a B.S. from Illinois State University.

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## Holiday Symphony Celebration

The Evanston Symphony Orchestra (ESO) delighted all ages with its annual Christmas concert made possible by a generous donation from Romano Brothers & Co.

Conducted by Lawrence Eckerling, the symphony performed holiday favorites such as Anderson's Sleigh Ride, Waltz of the Flowers from the Nutcracker, and the Twelve Days of Christmas. Special guest, Mary Ann Ahern (NBC Channel 5 reporter) narrated 'Twas The Night Before Christmas and Chanukah Suite.

"We were happy to be a part of the success of the ESO's Christmas Concert," said Joseph R.V. Romano, president. "Teaming up with local organizations has always been the philosophy of our charitable giving."



(Above) For the second year, Romano Brothers & Co. underwrote the ESO Christmas concert. Left to Right: Dick Romano, Chairman; Natalie Romano, Portfolio Manager; Lawrence Eckerling, ESO Music Director; and Penelope Sachs, ESO President.



(Left) ETHS Chorale greeted concert goers with holiday carols.

## Evanston Kiwanis, McGaw YMCA and Romano Brothers Beat The Streets

Romano Brothers & Co. and the Evanston Kiwanis Club have a long history together. Chairman Dick Romano has been a member since 1980 and recently Dave Davenport, Financial Consultant, finished his term as club president.

The firm's philosophy of giving back to the community financially and with personal time has helped many local charities attain their goals. This year, the Beat The Streets Golf Outing (a joint effort between the Evanston Kiwanis Club and the McGaw YMCA) netted \$15,000.

"The money raised funds a youth development program that uses wrestling, adult coaching and guidance to help children have a healthy and meaningful after-school activity," said Dave Davenport.



McGaw YMCA Fitness Instructor, Walter Henebry, Dick Romano and Dave Davenport hit the greens to support the Evanston Kiwanis/McGaw YMCA annual Beat The Streets Golf Outing held at the Lake Bluff Golf Club.

## Joe Romano begins term as President of Illinois Securities Industry Association

On August 1, Joe Romano began his term as President of the Illinois Securities Industry Association (ISIA), a two year position. The organization is comprised of executives from investment firms located in Chicago as well as throughout the state of Illinois, and meets frequently to discuss regulatory and business issues affecting the industry. Most recently, Joe was a part of an ISIA envoy that met with officials from State Treasurer Judy Baar Topinka's office to discuss policy and enhancements to the Bright Start College Savings program, the Illinois sponsored 529 plan.

Romano has served on the board for four years, most recently as Vice President.



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Romano Brothers & Co. and the ESO brought holiday music to hundreds at the annual Christmas concert held at ETHS. Left to Right: Doug Geisser, Vice President; Mary Ann Ahern, NBC Reporter; Dick Romano, Chairman; Grace Garby, Chief Administrative Officer; Lawrence Eckerling, ESO Music Director; Penelope Sachs; ESO President; and Santa!

WISHING YOU A *Happy Holiday Season*

