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Truth, Knowledge, Experience *1st Quarter 09*

Quarterly Market Commentary – Q109

Presented by Stephen Geremia

Hi Everyone,

As we head into spring, the markets seem to have stabilized. In my opinion, I think we have seen the bottom.

Sincerely,
Steve Geremia

In This Issue:

Rally lifts spirits

Investors yearning for some good news finally saw their patience rewarded toward the end of the first quarter. After glum economic data had battered stock prices to start the year, a bright spot or two finally emerged in mid-March, providing some hope that the worst of our economic maelstrom might possibly be behind us. Previously ill-defined government initiatives—including the Treasury's plan to corral so-called toxic mortgage assets and the White House's entrée into the automotive industry—became noticeably more tangible and contributed to a sharp stock market rally toward quarter-end.

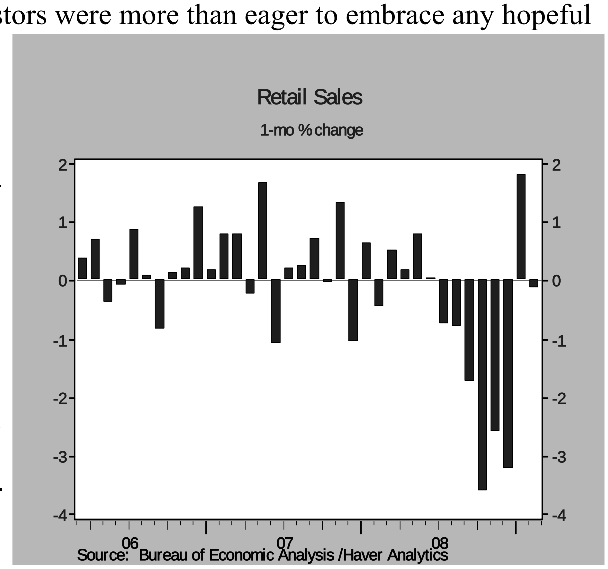
Dramatic late-quarter rebound

Extending 2008's dismal returns, stocks continued their descent through early March—with the S&P 500 Index and the Dow Jones Industrial Average (DJIA) falling 24.6 percent and 24.8 percent, respectively, while the small-cap Russell 2000 Index lost more than 31 percent through March 9. In the subsequent weeks, however, optimism returned and markets regained a good portion of the year's losses. The S&P 500 ended the quarter down 11 percent, the DJIA gave up 12.5 percent, and the Russell 2000 was off by 15 percent.

Most European economies, which have also been hard hit by the global recession, have experienced market declines of a similar magnitude this year, while some countries—such as Italy, Germany, Finland, and Japan—have suffered market losses even greater than those here at home. The bright spots for equity investors have been in typically volatile emerging markets, such as China, Russia, and Brazil. These markets are each in positive territory for the year-to-date 2009, but, in most cases, they have still fallen further than developed economies over the past 12 months.

Optimistic signs?

On several fronts, economic reports released in March showed that—while it may still be premature to predict a drastic improvement in the near term—conditions in the economy are at least deteriorating less rapidly. Following the adage that before things can get better, they have to stop getting worse, investors were more than eager to embrace any hopeful signs.



One such sign was a 0.3-percent rise in consumer prices in January, according to Labor Department statistics, the first monthly increase in six months. And while inflation is typically not welcomed by consumers, in this case some have construed it as a signal that the likelihood of a worst-case, deflationary spiral has at least been lessened.

Retail sales data has also showed positive signs, a hopeful indicator that perhaps the U.S. consumer will prove more resilient than expected. In February, retail sales fell by 0.1 percent, as compared with the prior month, but that slight decline was better than many forecasts. Even more promising, after excluding automotive industry sales (which remain under considerable stress), the retail sales number actually grew by 0.7 percent for the month—as sales of furniture, clothing, and electronics were all stronger than expected.

Coinciding with the February data release, retail sales for January were also revised higher—from up 1 percent in the initial estimate to up 1.8 percent—ending a string of six consecutive months of declining consumer activity. Many analysts, however, consider the January sales rebound to be a one-time anomaly in the aftermath of a severe slowdown in the last several months of 2008.

Even the beaten-up housing market revealed glimmers of hope, as historically low mortgage rates and distressed prices in many areas fueled an increase in sales of both new and existing homes. Existing home sales rose 5.1 percent in February, as compared with the prior month, but prices were also 15.5-percent lower than they were in the same period one year ago. Distressed sales, including short sales and foreclosures, continue to play an important role in setting the market, as roughly 45 percent of recent sales nationwide fell into that category.

More robust sales activity, however, will be a key ingredient in clearing the excess inventory of unsold homes—not to mention in giving consumers the confidence that the slide in prices may finally be stabilizing. On a national basis, single-family prices have now declined by nearly 30 percent from the July 2006 peak, according to the Case-Schiller Composite 20 Index, though regional variations in price declines are predictably wide.

Other initiatives taking shape

With both the $787 billion stimulus package and the mortgage relief program finalized in mid-February, other government initiatives aimed at stabilizing the economy also advanced during the quarter—most notably, programs related to restoring a market for mortgage-related assets and ensuring that interest rates remain in an accommodative range.

On March 24, the Treasury released details of its Public-Private Investment Program (PPIP) to use up to $100 billion in Troubled Asset Relief Program (TARP) funds to purchase illiquid mortgage pools and mortgage-backed securities. Under the plan, the Treasury will select four to five private investment managers to participate in an auction to purchase assets that banks have elected to sell. The Treasury will match whatever capital is invested by the private firms with the remaining leveraged capital in the form of FDIC- or Treasury-backed financing (depending on the specific assets being purchased). On the surface, the plan appears to be a reasonable compromise between enticing private capital to the market for mortgage-related assets and exhibiting care in the use of public funds.

Finally, the Federal Reserve announced plans to purchase up to $1 trillion combined of Treasury bonds and Fannie Mae and Freddie Mac mortgage-backed bonds as a means to inject more money into the system and to keep a lid on interest rates. The move should help to keep interest rates, particularly mortgage rates, in a range that encourages home purchasing and refinancing activity. Given sufficient time, the move should also help to restore equilibrium to the housing market.

Looking ahead

With some potentially buoyant signals beginning to appear, bullish sentiment has reemerged among investors as well. And yet, the sharp rebound in stock prices we have experienced recently may have raced ahead of underlying economic fundamentals. Consumer spending still faces an uphill battle, and mounting job losses in the real economy may yet constrain economic growth going forward. We are optimistic that incremental improvement exists on many fronts, but keep a watchful eye on many others.

Disclosure: *Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. All indices are unmanaged and investors cannot invest directly into an index. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index.*

Authored by John Blood, CFA, CFP®, chief market strategist, at Commonwealth Financial Network.

"We're certain, for example, that the economy will be in shambles throughout 2009-and for that matter, probably well beyond-but that conclusion does not tell us whether the stock market will rise or fall."
—from Warren Buffet's 2/27/09 letter to shareholders of Berkshire Hathaway

Chief Investment Strategist Corner
By James Swanson, CFA

This crisis is not on par with 1929

The headlines of late have compared the current credit crisis with the crash of 1929. Here are five reasons why I disagree with this assessment.

1. **Bank deposit insurance.** This program was created after the events of 1929. The Federal Deposit Insurance Corporation was set up in 1933 to guarantee the safety of checking and savings deposits. Today, with that insurance in place, the average investor is assured that his or her deposits up to certain amounts are safe.

2. **Knowledge.** The year 1929 has been very closely studied. U.S. Federal Reserve Board Chairman Ben S. Bernanke made his career and fame as an academic by studying the causes, ramifications, and solutions to the events of 1929. Has he acted on this? He sure has. As Head of the central bank, he began cutting rates a year ago, and since then has implemented very creative and unusual liquidity plans in the United States to help shore up both the economy and the financial system. Under his leadership, we have seen the creation of an extremely decisive and activist Fed.

3. **A manufacturing versus a service economy.** In 1929 the U.S. economy was much more oriented toward manufacturing, which is cyclical. Today, the economy is service oriented, which tends to be more stable. Federal, state, and local government workers are a big component of our service economy today and make up about 20% of the work force. The number of these workers is increasing no declining. Health care and education, which compose about 8% and 3% of the economy, respectively, are industries that are not as susceptible to cycles and whose work forces are expanding.

4. **Farming.** Back in 1929 one in five workers was employed in agriculture. Today that number has declined to 2 out of 100 workers. Back then, irrigation was unsophisticated, and many of the grain-producing states were in the midst of a drought. Given the large numbers of workers employed in farming, unemployment became a problem. We are not experiencing this type of labor crisis today.

5. **Trade.** During the 1920s and 1930s trade laws were extremely draconian and restrictive . These laws essentially crated an environment of tit for tat among various countries. This environment had the effect of restricting trade among nations. We are not experiencing a similar situation today. Trade is flowing very freely compared with that era.

This is not a perfect world, but it is too easy to make dramatic comparisons to a distant age when many of those comparisons are invalid.

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Past performance is no guarantee of future results.

Every day I get up and look through the Forbes list of the richest people in America. If I'm not there, I go to work..
~Robert Orben

In my search for investment ideas I have learned a number of interesting things which I wanted to share with you:

70% of the world's fresh-water consumption is related to agriculture.—*2008 John Deere Annual Report*

10.57% of the earth's surface is arable land.—*CIA, The World Factbook*

Wheat, rice, corn, millet and sorghum provide nearly all (70%) the food energy (calories) and up to 90% of all protein consumed by the world's people.—*2006 www.Globalchange.edu*

Each year, humans release more than 30 billion tons of carbon dioxide into the atmosphere through burning of fossil fuels. Another 5.5 billion tons is released through biomass burnings such as forest fires. Between 40 and 50% of that amount remains in the atmosphere and another 30% is dissolved into the world's oceans. It is a mystery to scientists where the remaining carbon dioxide is going. In Feb 2009 NASA is scheduled to launch a new satellite which is poised to shed a very bright light on mission carbon dioxide.—*Jan 2009, NASA*

The United Nations estimates between 2005-2015 and additional $14-30 billion per year in addition to current annual spending levels of 30 billion worldwide is needed to provide safe drinking water and sanitation to those lacking them.—*Nov 2004, United Nations Dept of Public Information*

By the year 2025, the population projected to be living in water-scarce countries will rise between 1.0 billion and 2.4 billion, representing 13%-20% of the projected global population.—*2009, World Meteorological Organization*

The stratospheric ozone layer, through absorption of solar ultraviolet radiation, protects all biological systems on Earth. In response to concerned over the depletion of the global ozone layer, the Clean Air Act, as amended in 1990, mandates NASA and NOAA to monitor stratospheric ozone and ozone-depleting substances. In 1980 the Antarctic ozone hole became easily detectable. It is projected that sometime after 2080 the stratospheric halogen level necessary to allow a ozone-hole-free Antarctic will occur.—*2006, National Oceanic & Atmospheric Administration.*

1.2 trillion gallons of untreated sewage, stormwater, and industrial waste are discharged into US waters annually. The US EPA has warned that sewage levels in rivers could be back to the super-polluted levels of the 1970's by the year 2016.—*April 2009 GreeningPlanet.com*

The United States has made significant progress in improving water quality in its lakes, rivers, and streams and in reducing direct discharges of pollutants over the last 35 years. However, the EPA currently estimates that 45 percent of waters nationwide do not meet even the basic standards set out by the Clean Water Act, meaning that they are not safe for fishing or swimming, let alone as a source of drinking water.—*June 2008 Environmental Literacy Council*

We simply attempt to be fearful when others are greedy and to be greedy when others are fearful—
Warren Buffet

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