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## Quarterly Market Review: January-March, 2010

One year ago, as the economy was in the depths of the recession and the stock market made the low for the decade.

The transition from economic recovery to sustainable growth is underway. The progress is uneven, which may cause the markets and economic data to encounter volatility, but the economy is becoming healthy again. The improving credit markets and the return of economic and profit growth, both here and abroad have coincided with the return of investor confidence.

The recovery has been strong and now the U.S. economy is on the cusp of finally creating new jobs. Job growth is an essential component of sustainable growth.

The extremes of fear and euphoria evident in the markets in recent years may provide astute investors a golden opportunity. Taking action to profit or protect from extremes in investor behavior are essential components of a sound long-term investment plan. We remain focused on navigating the volatility ahead as the transition to sustainable growth unfolds.

As always, please contact me if you have any questions. Scott E. Bordelon, CFP®, AAMS

## Quarterly Market Review: January-March, 2010

Take that, bears! Investors who doubted that last year's rally would continue spent much of the quarter raising their eyebrows in disbelief. The domestic equities indexes celebrated the one-year anniversary of last year's March lows by roaring back from a downturn in late January and early February. Even the Dow, which lagged the others, hit a high not seen in 18 months. As often happens after an economic downturn, small caps continued to see the greatest rebounds. The Russell 2000 has now almost doubled from its March 9, 2009 low, followed closely by the Nasdaq's 89% rebound. By contrast, the broader S&P 500 is up 73% over the same period--a 55% retracement of the loss from its October 2007 market peak--while the Dow has gained 66% since last March.

Anxiety about European sovereign debt, particularly that of Greece, rattled bond markets, though eurozone leaders promised support. As a result, the dollar rally that began late last year rolled on, even though the Federal Reserve continued to promise low interest rates for "an extended period." By quarter's end, U.S. Treasury auctions showed signs of strain, with weak demand for short- and intermediate-term issues. However, investor demand seemed able to handle the ongoing flood of both corporate and Treasury debt.

### Economic Data/Currencies

Data	Current	Year over Year	Notes
Consumer Price Index (CPI as of 3/18)	0.0%	+2.1%	Excluding food and energy, annual inflation is at its lowest level in six years
Unemployment rate (as of 4/5 for March)	9.7%	+1.1%	162,000 jobs added to nonfarm payrolls is largest increase in 3 years
Gross Domestic Product (GDP) (as of 3/26 for Q4)	+5.6%		Lower than earlier estimates, but up from Q3's 2.2% growth
As of March 31, 1 euro equaled:	\$1.35	Dollar +2%	In March, dollar hit its highest level since May 2009
As of March 31, \$1 equaled:	¥92.70	Dollar +.5%	

### The Markets

Market/Index	End of Quarter	Quarterly Change	Year Over Year
DJIA	10856.63	4.11%	42.68%
NASDAQ	2397.96	5.68%	56.87%
S&P 500	1169.43	4.87%	46.57%
Russell 2000	678.64	8.51%	60.53%
Global Dow	2021.70	1.88%	50.05%
Fed. Funds	.25%	0	0 bps
2-year Treasuries	1.02%	-12 bps	21 bps
10-year Treasuries	3.84%	-1 bps	113 bps
Crude Oil (per barrel)	\$84	6%	69%

Spot Gold (per oz.)	\$1,114	2%	21%
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## Quarterly Economic Perspective

- Despite expectations that February blizzards might mean even worse unemployment figures, Bureau of Labor Statistics data showed unemployment dropped from 10% to 9.7% over the last three months and stayed there. March was the fifth straight month of either improvement or stabilization. However, the 162,000 jobs added to nonfarm payrolls in March included 48,000 temporary census workers.
- The hotly debated Patient Protection and Affordable Care Act (the health care bill) and revisions to it were signed into law, as was a second jobs stimulus package.
- Inflation remained relatively benign at the consumer level, but by March, wholesale inflation was edging up at an annual rate of 4.4%.
- The Federal Reserve Board made good on its promise to wind down some of the measures it adopted to combat the financial crisis. Its purchases of mortgage-backed bonds came to an end in March as scheduled. The Fed also raised the interest rate it charges banks for short-term emergency loans from 0.5% to 0.75%, though the Fed funds rate--the one that most affects consumers--remained the same.
- New home sales fell to their lowest levels since the Commerce Department began keeping records in 1963. February's blizzards also took their toll on housing starts. However, February retail sales were up almost 4% from a year ago. Not including a sharp drop in auto sales, the number was even stronger, and companies continued to replenish inventories.
- The Federal Reserve Board said that overall household net worth was up by 5.4% in the last quarter of 2009. However, total consumer debt saw its biggest annual decline on record, largely because of record defaults on mortgages, credit cards, and other debt.
- The spread between 2-year and 10-year Treasury debt widened from 2.71% at the beginning of the year to 2.82%. Bond funds continued to attract the bulk of new mutual fund inflows.

## Investor's Almanac

**History Lessons:** The longest bull market on record lasted from October 1990 to July 1998. The longest previous bear? From September 1939 to April 1942. Bear in mind (no pun intended) that experts can differ in how they define specific bull and bear markets.\*

**Did You Know?** When you consider the yield of an individual bond, it's important to know what type of yield you're talking about. A bond's coupon rate is the interest rate specified in the bond agreement. Its current yield may be different because that depends on whether you bought the bond at a premium or a discount to its face value.

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*DATA SOURCES--Economic: Based on data from U.S. Bureau of Labor Statistics (CPI/PPI inflation, unemployment); U.S. Dept. of Commerce (GDP, housing starts, retail sales). Performance: Calculated based on data as reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.kitco.com (spot gold, NY close); Oanda (currency exchange rates). The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely-traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The Nasdaq Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment.*

*\*Based on data from theStock Trader's Almanac 2010 on the Dow Jones Industrial Average from 9/24/1900-3/10/2008.*



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