



AND THAT'S THE "QUARTER" THAT WAS... For the Quarter Ended March 31, 2009

Market Matters...

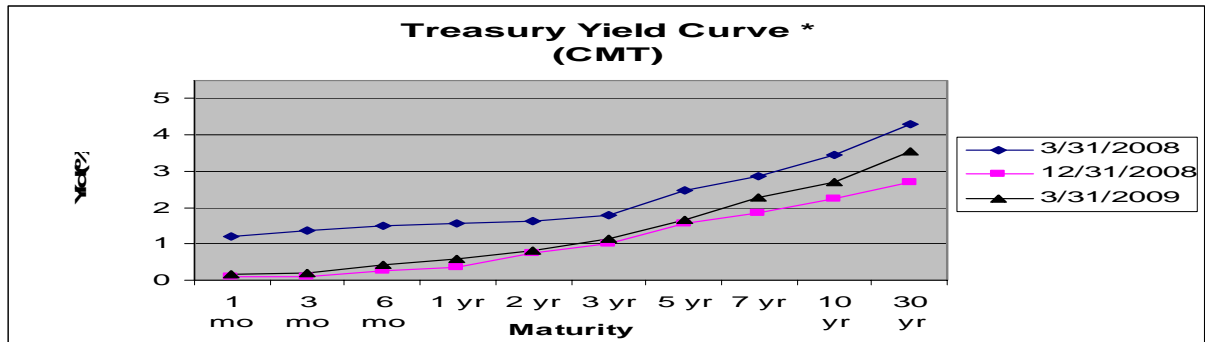
Market/Index	Year Close (12/31/08)	Qtr Close (03/31/09)	YTD Change
Dow Jones Industrial	8,776.39	7,608.92	-13.30%
NASDAQ	1,577.03	1,528.59	-3.07%
S&P 500	903.25	797.87	-11.67%
Russell 2000	499.45	422.75	-15.36%
Fed Funds	0.25%	0.25%	0 bps
10 yr Treasury (Yield)	2.24%	2.68%	+44 bps

It was the worst of times; it was slightly better than the worst of times (apologies to Dickens for the plagiarism liberties). When 2008 came to a close, investors hoped the nightmare had ended and some normalcy would return to the economy and the markets. Three months, a \$787 billion stimulus package, and phase 2 (3 and 4) of the government bailout plan later, and the nightmare continued. As the economy grew weaker, folks across many industries worried about where that next paycheck would come from (unless they received retention bonuses from **Merrill Lynch** or **AIG**). Investor clients of the Madoff-esque **Stanford Financial** realized why their CDs from **Bank of Antigua** offered above-average yields. (Ponzi again?) TALF joined TARP as another mega-billion government program (that few understood) designed to stimulate the economy and enhance lending activity. **Citigroup** fell (temporarily) into penny stock territory and a step closer to nationalization as the government injected more capital into the one-time bank stalwart. The new Administration worked on a plan to remove toxic assets from ailing banks' balance sheets, though the treasury secretary flubbed the initial details. Automakers moved closer to bankruptcy as the government rejected their restructuring plans, "suggested" **GM's** CEO pursue other endeavors, and laid down serious guidelines regarding future intervention. **Microsoft** issued a dismal outlook for the year and techs joined housing and manufacturing as out-of-favor sectors hindered by reduced consumer activity. How have those first 70 days gone, Mr. President?

A funny thing happened on the way to a deeper recession, new market lows, and sheer panic. Citi, **Bank of America**, and **JP Morgan-Chase** announced promising results for the first two months of the year. Boardroom confidence returned (at least within healthcare) as transactions involving **Merck/Schering-Plough** and **Roche/Genentech** moved forward. **Best Buy** reported better than expected profits as consumer activity suddenly picked up (above the dismal levels of the 4th quarter). The credit markets began to thaw a bit as corporations issued new debt and Fed Chair Bernanke offered a plan to buy treasuries to keep rates low. Geithner took a mulligan on that toxic asset proposal and private investors like **PIMCO** indicated interest in participating.

From a market perspective, Obama's honeymoon lasted all of about five minutes as investors lost confidence in the stimulus and bailout plans. The equity carnage continued through February as stocks fell to 12-year lows and investors experienced "a lost decade." March brought *cautious optimism* as banks claimed to be making money, Geithner regained some credibility, and Bernanke predicted a late-2009 end to the recession. Though the Dow fell for its 6th straight quarter (-13.3%), March was its best performing month since October 2002. For the quarter, apparel retail (+12.6%) and Internet (+11.6%) were among the top performing sectors, while life insurers (-45.2%) and banks (-37.4%) struggled early. The Shanghai Composite soared 30%, while Brazil's and Russia's key indexes each jumped 9% as certain foreign markets fared better than their US counterparts. Let's hope *the best of times* are just around the corner.

Economically Speaking...



Can't everyone just get along? As he prepared for his first appearance on the global stage at the G-20 summit, President Obama realized America may be considered public enemy number 1 by many of his peers. As the economic "challenges" at home spiraled across the globe over the past three months, world leaders lashed out against domestic policies and placed blame on the greed, arrogance, and lax regulations that symbolize American capitalism. Europeans took exception to some Obama innuendos that foreign governments were not engaged enough in jumpstarting their respective economies. China projected 8% yearly growth for its economy and also expressed serious concerns about its investments in US government securities, given the massive domestic spending programs (OK...bailouts), weak dollar, and rapidly ballooning deficits. The European Central Bank and Bank of England followed the lead of the Fed and reduced their key lending rates to historic lows. Meanwhile, with fed funds hovering just above 0%, Bernanke and friends were forced to find new ammunition in their arsenal and announced plans to purchase up to \$300 billion in treasuries. Dr. B. also boldly predicted an end to the recession by the latter part of the year, though, of course, he included multiple disclaimers about program successes, banking stabilization, and enhanced consumer activity (and possibly Jupiter aligning with Mars).

Let's turn to the numbers. The Commerce Department initially reported 4th quarter GDP as down 3.8%, its worst showing in 27 years, though not as bad as many economists had projected. A few months later, its analysts offered a second downward revision (down 6.3%) and confirmed that that recession worsened in the previous quarter. (That's such old news, now.) **Labor:** Jobless statistics became the primary compasses for the economy as firms across diverse sectors played "follow the leader" in their layoff announcements. In one day alone, about 70,000 jobs were eliminated at the likes of **Pfizer, Sprint, Home Depot, and Caterpillar**, and the unemployment rate soared above 8% in February. **Manufacturing:** Factories struggled as industrial production fell to the lowest level in almost seven years, though a favorable durable goods release offered late quarter optimism. **Housing:** Home sales jumped in February as buyers took advantage of low rates, the dramatic decline in prices, and a tax break for first-time homeowners. **Retail:** The consumer showed renewed signs of life in January and February as recent retail data depicted an increase in activity that looked even better once dismal auto sales were removed from the equation. **Inflation:** Despite energy prices climbing a tad late in the quarter, inflation remained well under control, and nervous talk about deflation seemed to have subsided for the time being.

On the Horizon... While analysts expect economic data and corporate earnings to remain weak by historical standards, they will focus on relative comparisons to prior months and quarters. For example, a 5%-6% contraction in 1st quarter GDP will look decent vs. the 6.3% decline in the 4th. A weak, but improving earnings season will offer hope that better times are ahead and Bernanke's 2010 rebound prediction may be on target. The last few weeks of March offered investors and economists a bit of *cautious optimism*. Here's hoping that trend continues into April and beyond.

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