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AND THAT'S THE WEEK THAT WAS…
For the Quarter Ended March 31, 2010

Market Matters…

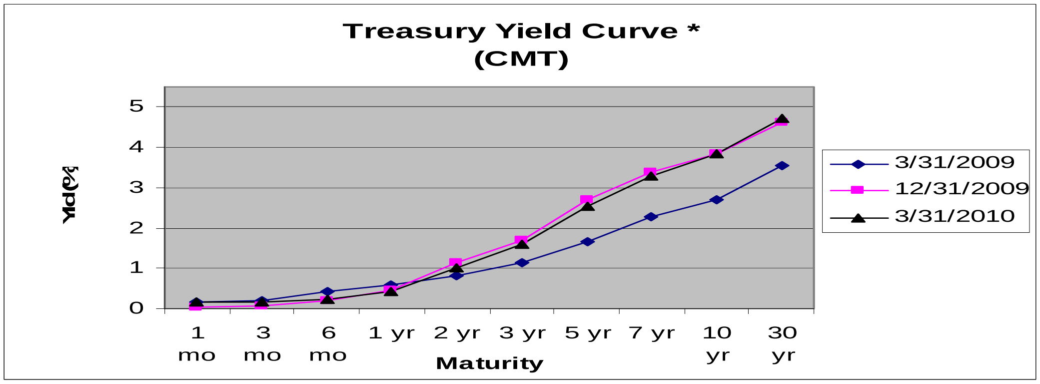
Market/Index	**Year Close (2009)**	**Qtr Close (03/31/10)**	**YTD Change**
Dow Jones Industrial	10,428.05	**10,856.63**	**4.11%**
NASDAQ	2,269.15	**2,397.96**	**5.68%**
S&P 500	1,115.10	**1,169.43**	**4.87%**
Russell 2000	625.39	**678.64**	**8.51%**
Global Dow	1,984.48	**2,021.70**	**1.88%**
Fed Funds	0.25%	**0.25%**	**0 bps**
10 yr Treasury (Yield)	3.85%	**3.83%**	**-2 bps**

What a difference a year makes. When 1st quarter 2009 came to a close, many investors were still convinced the world was coming to an end. A new Prez inherited the worst economy since the Great Depression and equities had touched their lowest levels in 12 years before rebounding slightly at quarter-end. The country (world, for that matter) faced a huge fork in the road: double-dip recession (a likely scenario among naysayers) or continued road-to-recovery (believed by only the most eternal of optimists). *The ayes have it!!!* On March 9, 2010, stocks celebrated the one-year anniversary of the lows set during the debacle by achieving an average annual return of about 70% since that time. For the entire first quarter 2009, the euphoria continued (though the "too far, too fast" battle-cry still lingers). The Dow (+4.1%) climbed to an 18-month high amid its best first quarter since 1999, while the S&P 500 (+4.9%) and Nasdaq (+5.7%) enjoyed steady gains of their own. Risk returned to the markets as industrials (+12.5%) and financials (+10.8%) led the charge, while "boring" defensive sectors like telecom (-5.7%) and utilities 4.6%) fell out of favor. Globally, markets in Europe (Germany +3.3%), Asia (Japan (+5.2%), and Latin America (Brazil +2.6%) performed well despite the ongoing debt issues in Greece, etc. On the other hand, China (-5.1%), struggled as it began to wean itself off of last year's massive stimulus.

Earnings continued their promising run and most sectors were well-represented: tech **(Intel**, **Apple, TI, HP**), financials (**Goldman**, **Wells Fargo**, **Travelers**), retail (**Amazon, Macy's**, **Neiman Marcus**), consumer (**Procter & Gamble**, **Coca Cola**). Economic bellwethers like **UPS** and **Fedex** reported solid holiday activity and forecast better times ahead; even **Ford** returned to profitability. Energy stocks (**Chevron**, **Exxon-Mobil**) bucked the trend with disappointing results on weak refinery operations. Pessimists claimed the earnings gains reflected cost-cutting measures and easy relative (year-over-year) comparisons. For earnings to become meaningful, corporations must enjoy enhanced revenues and sales (and as soon as the upcoming season).

In other quarterly highlights, Prez O and the Dems got healthcare without any Republican support (and big biz like **AT&T**, **Caterpiller**, and **Boeing** whined about higher tax bills). **Google** took a bold stand against censorship in China and may pay the price of limited (or no) exposure to this fastest growing market. **Toyota** proved that auto problems weren't limited to **GM** as it struggled through significant recalls (and terrible PR). **AIG** raised funds to pay back the gov by selling key insurance units to **Met Life** and **Prudential** (at least, it is trying to). Transactions revealed growing boardroom confidence as oilfield giant **Schlumberger** looked to buy **Smith Intl** for $11 billion. Techs seems ready to lead the recovery as **Cisco** announced a major router upgrade, **Qualcomm** raised its earnings forecast on smart-phone chip demand, and **Oracle** reported increased biz IT spending. Fixed income markets were relatively flat though the massive supply issuance raised concerns and recent auctions were met with lackluster demand. Crude ended the quarter at a 17-month high ($84/barrel) and gas looks primed to hit $3/gallon by summer. Plenty of questions and uncertainty remain. But, things feel a heck of a lot better than last year this time.

Economically Speaking…



In the "it's a small world" category, developments across the pond (seas and oceans) dominated much of the financial headlines of the quarter. The rapid growth in China prompted its gov to rein in certain stimuli to prevent an overheating economy and slow the threats of inflation. Regulators increased its banks' reserve requirements and took steps to restrict questionable lending practices. Meanwhile, their politicos did not take too kindly to outsiders attempting to inject their financial acumen and moral code on the country. Throughout the quarter, officials exchanged barbs with their US counterparts over respective (too low) currency levels and trade policies, while taking serious issue with Google over its censorship stand. A new Greek tragedy emerged as the EU agreed to an aid package for the tiny country as it tries to reduce its massive deficit and overcome serious budgetary challenges. But the bigger question remains…who will be next? Fitch seemed to "favor" Portugal and cut its credit rating during the quarter.

Closer to home, the economic data of the past three months was impacted by the harsh winter weather that blanketed much of the country. ***GDP:*** The overall economy experienced a strong (5.6%) rate of growth in the 4th quarter, though most folks in-the-know expect weaker (but still positive) results for the 1st quarter. ***Housing:*** Home sales activity (both existing and new) remained slower than desired and analysts fear the worst as the Fed ceases its mortgage purchase program after quarter-end. ***Manufacturing:*** The sector looked strong as factory orders and industrial production continued to expand despite the poor weather conditions and the key ISM index depicted growth for seven straight months. ***Retail:*** The country had a consumer-sighting during the quarter as February retail sales unexpectedly rose and the International Council of Shopping Centers also reported enhanced consumer activity. Even the confidence index ticked up in March after a dismal February showing. ***Labor:*** While biz hiring is expected to remain slow for the foreseeable future, the jobless rate dropped below the dreaded 10% level and average claims for unemployment benefits fell to levels last seen in September 2008. ***Inflation***: As for price pressures, most economists see none and seem content to leave that issue for another day (though rising energy prices and the ballooning debt position lurk in the background).

After heated Congressional grandstanding, Dr. B. was confirmed to a new term as Fed Chief and he went on the offensive against critics who want to limit its role in the future. Policymakers like what they see in terms of a modestly stronger economy, but will continue to play a "wait-and-see game and leave fed funds at current levels (0% - 0.25%) for an "extended period."

On the Horizon…So many questions: Will the end of the mortgage purchase program prove devastating to an already weak housing sector? Will the jobs market continue to move in a positive direction? Does the Greek tragedy domino into Portugal? Ireland? What does that mean for the future of the EU? Can China contain its "overheating" economy? Will investors soon be saying hello to Dow 11k (14k)? When will the dreaded "I" word enter water cooler discussions again? Can biz afford new healthcare? Will Dr. B. be rendered powerless? So few answers…