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AND THAT'S THE WEEK THAT WAS...

For the Quarter Ended March 31, 2011

Market Matters...

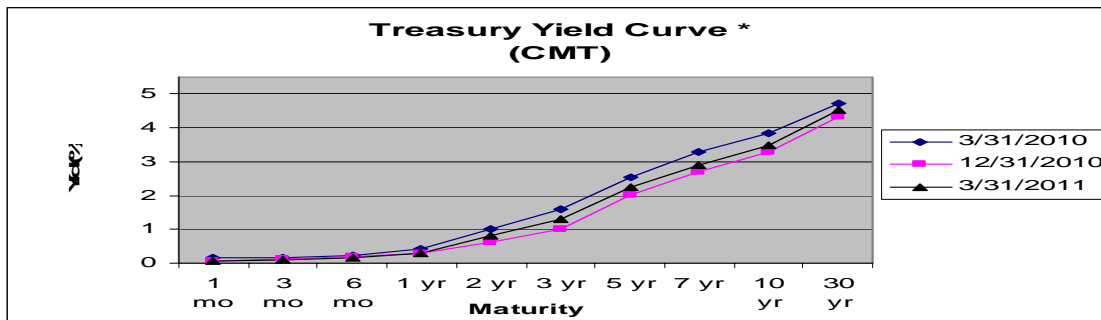
Market/Index	Year Close (2010)	Qtr Close (03/31/11)	YTD Change
Dow Jones Industrial	11,577.51	12,319.73	6.41%
NASDAQ	2,652.87	2,781.07	4.83%
S&P 500	1,257.64	1,325.83	5.42%
Russell 2000	783.65	843.55	7.64%
Global Dow	2,087.44	2,186.41	4.74%
Fed Funds	0.25%	0.25%	0 bps
10 yr Treasury (Yield)	3.31%	3.45%	14 bps

"It's a small world after all." The past quarter was proof positive that developments across the world truly impact the global economy and investment markets (or do they?). A pro-democracy movement spread across the Middle East as protests led to regime change in Egypt and ongoing violence "promises" major transformation in Libya (and beyond). Crude prices surged to levels not seen in 2 ½ years and inflation fears resurfaced (particularly if Saudi dissidents join the revolution in a major way). Japan suffered a devastating earthquake and tsunami that brought the third largest economy to a virtual standstill and the initial price-tag for reconstruction stands at over \$200 bln. While analysts claim the rebuilding process will prove positive for global trade, Japan's excessive debt could put a damper on any "speedy recovery." Europe has yet to move beyond its budget crisis as Portugal heads toward bailout status and sovereign debt rates escalate throughout the region. Emerging markets like China have been trying to halt inflation in its track by lifting rates and enacting new banking regs, moves that could stymie the rapid expansion that has dramatically contributed to global growth. Still, the US keeps buzzing along (for now).

Domestic headlines pointed to an economy well on the road to recovery. Earnings season proved positive as companies finally enjoyed real revenue growth with retailers, oil giants, and economic bellwethers (**GE**, **UPS**) posting solid results. M&A activity soared from last year as boardroom optimism meant more deals for cash-rich companies. **AT&T** is buying **T-Mobile** for \$9 bln to become the nation's largest wireless provider (hopefully the cellular coverage will improve). **Berkshire Hathaway** is acquiring **Lubrizol** and Chief Warren (Buffett) hinted to more deals in the making. Shareholders were rewarded for their confidence with enhanced dividends and back-back programs. **Apple** "cannibalized" its iPad sales by launching iPad 2, while also adding **Verizon** to its network (sorry AT&T). **Borders** joined the ranks of the bankrupt as "big box" retailers struggle in the online shopping age. Still, the US keeps buzzing along (for now).

The bull market celebrated its two year anniversary (3/9/09) and the Dow Jones and S&P 500 virtually doubled during that 24-month period (what recession?). The good times kept rolling early, though the earthquake sent shockwaves through the markets and stock indexes plunged into negative territory in mid-March. As the quarter neared its close; however, investors again focused on the positives (deals, revenues, stronger economy) and the Dow rebounded nicely to experience its best start to a year since 1999 and other indexes followed suit. (Actually small-caps led the way as investors seem more comfortable adding risk to their portfolios.) Energy companies were among the best performers on rising crude prices, while some techs struggled on disappointing news from **Intel** and **Cisco**. As expected, Japan's index fell on the devastation, while China's rebounded on its measures to fight inflation. Bond yields edged higher as investors assumed more risk, while many companies continued taking advantage of the low rates to issue \$771 bln in new debt. Japan is digging itself out; the Middle East is a virtual war zone; Portugal needs help (what say you, Germany?). Still, the US keeps buzzing along (for now).

Economically Speaking...



With investors seemingly focused on global developments (many of which would be perceived as negative for the economy and markets), Fed Chair Bernanke assumed the role of cheerleader and nation's top optimist. Throughout the quarter, he spoke confidently about prospects for economic growth and downplayed the threats of inflation (does Dr. B. have to pay for his own gasoline?). He tried to quash the growing concerns about price pressures by proclaiming the policymakers stand prepared to act quickly should such threats materialize. He praised the effects of the stimulus measures and reaffirmed his commitment to QE2 (bond buying program), despite the newfound strength in the labor market. The Fed's Beige Book confirmed the Chair's optimism as each of the 12 regions depicted "modest to moderate" growth. Still, the Fed left rates unchanged at near 0% for the time being, though some rumblings about future hikes (by year-end?) among the powers-that-be have emerged as of late. Bernanke even lashed out at Congress (and the Administration) to get passed its budget battle and take real measures to get the deficit under control. Across the "pond," the European Central Bank looks to be assuming a different course as rumors have a rate hike in the 17-member euro-zone, perhaps as early as this month (April).

Looking inside the domestic numbers, manufacturing continued to lead the recovery as the ISM index reached its highest level of sector growth since May 2004. Consumers move past recession hibernation as both personal income and spending grew at solid paces early in the year (helped by the Bush tax cut extensions). February retail sales rose to the best showing in four months, though some analysts are concerned that higher prices at the pumps may begin to show ill-effects soon. The unemployment rate fell below nine percent (8.9% in February) for the first time in almost two years and more than 200,000 new nonfarm jobs were added to the economy. While that inflation data has been more troublesome as of late, once the highly volatile food and energy prices are factored out of the equation, the fears do not seem quite as severe. (Of course, food and energy still comprise a sizable portion of our daily expenses.) Though crude prices have soared amid the Middle East unrest, some analysts believe that much of the run-up represents sheer speculation and prices will move lower (much lower) once the regional "challenges" are calmed. Housing remains the one negative within the economy as new construction activity is virtually nonexistent and home sales (and prices) continue to plummet with each passing month.

On the Horizon ... A recent *Wall Street Journal* economists' survey predicts continued growth with the GDP expanding by 3.5% in the 4th quarter. Despite rising commodity prices, the "experts" do not seem too worried about inflation (for now). With QE2 scheduled to end in a few months, investors remain hopeful that the economy (and markets) can continue the favorable road even without the artificial support of the Fed. Shifting abroad, Japan must move quickly to get major operations back in working order and begin to lay out plans for rebuilding infrastructure (which could prove positive for its economy). The Middle East turmoil is showing no signs of ending and all eyes remain on the Arabian Kingdom to make sure the leading oil producer continues operating "biz as usual." Portugal's financial system appears to be in shambles, though the rest of the world merely offers a collective yawn. (Please tell us why we should care, Dr. B?)

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