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AND THAT'S THE "QUARTER" THAT WAS... For the Quarter Ended September 30, 2009

Market Matters...

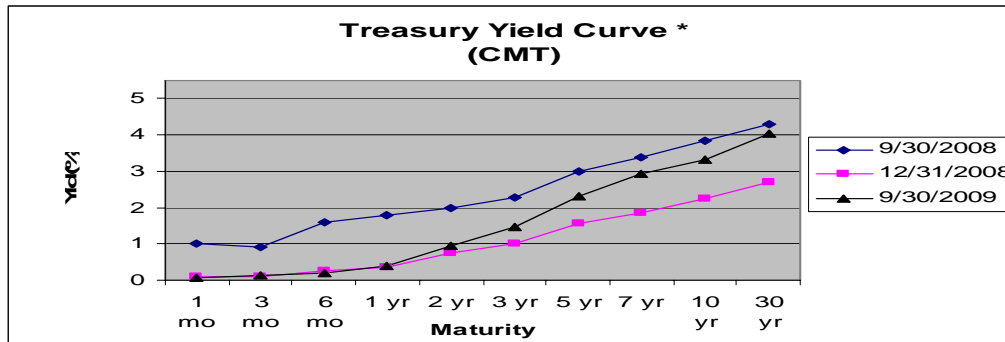
Market/Index	Year Close (12/31/08)	1 st Qtr Close (03/31/09)	2 nd Qtr Close (06/30/09)	3rd Qtr Close (09/30/09)	Qtr Change	YTD Change
Dow Jones Industrial	8,776.39	7,608.92	8,447.00	9,712.28	+14.98%	+10.66%
NASDAQ	1,577.03	1,528.59	1,835.04	2,122.42	+15.66%	+34.58%
S&P 500	903.25	797.87	919.32	1,057.08	+14.98%	+17.03%
Russell 2000	499.45	422.75	508.28	604.28	+18.89%	+20.99%
Global Dow	1526.21	1347.38	1,629.31	1,894.59	+16.28%	+24.14%
Fed Funds	0.25%	0.25%	0.25%	0.25%	0 bps	0 bps
10 yr Treasury (Yld)	2.24%	2.68%	3.52%	3.31%	-21 bps	+107 bps

RISK returned to the marketplace in the third quarter as previously down-and-out investments (securities, styles, sectors, etc.) were suddenly back in vogue and many of the worst performers of the prior year rebounded with the strongest returns. While some analysts considered the double-digit yields of the second quarter to be mere bottom-fishing and a temporary reprieve from the vast "doom and gloom," investors continued to ride the bullish trend during the past three months to the best quarterly return for stocks (Dow Jones) since 1998. By mid-September, equities had reached levels not seen since October 2008, despite the naysayers' cries that the advance had gone "too far, too fast." In fact, September turned out to be a positive time for stocks, bucking its historic reputation as the worst performing month of the year. Beaten-down financials led the charge as investors found (perceived) value in banks that have weathered the storm (even those that remain on the government's dime). The three main U.S. equity indexes surged about 15%, while the small-cap Russell 2000 shot up almost 19% for the three-month period. (Small companies generally are considered riskier than more stable industry leaders.) While China's benchmark suffered a pullback after a 60%+ rise in the first half of the year, Europe returned to favor as indexes in the UK, Germany, and France rose about 20% on hopes for a solid economic recovery. High yield bonds skyrocketed by 15% as fixed income investors looked beyond the safe-haven of government securities and the once-frozen credit markets continued to thaw.

Business transactions implied renewed confidence in the boardrooms and investors reacted with similar market confidence of their own. IPOs, which were virtually non-existent at the beginning of the year, have reemerged, and one busy week in September became the most active for new offerings since late 2007. Similarly, while M&A activity remained far below peak levels, an array of prominent announcements returned to the daily headlines: **Abbot Labs/Solvay** (\$6.6 bln), **Xerox/Affiliated Computer Services** (\$6.4 bln), **Baker Hughes/BJ Services** (\$5.5 bln), **Disney/Marvel** (\$4 bln), **Dell/Perot Systems** (\$3.9 bln). "New and improved" **GM** emerged from bankruptcy protection in time to participate in the highly successful (too strong?) "cash for clunkers" program which brought buyers back to the deserted auto dealerships (at least, temporarily). Cost-cutting measures contributed to some enhanced earnings forecasts as **Procter & Gamble, FedEx, Intel, Caterpillar**, and **TI** (among others) projected better times ahead.

Oil remained range-bound with crude pushing past \$70/barrel on signs of economic growth, only to tumble back when rising inventories implied diminished demand. While politicians continued to grandstand against "corporate welfare" and support tighter regulations, much of their time was spent debating health-care reform (and outside of the purview of the investment marketplace). Three quarters down and one to go. The economy is rebounding (somewhat); returns are up (from late '08); investors are willing to take more risk (for now). What a difference a year makes.

Economically Speaking...



“Not only will we will be back on track, but the economy will be stronger than it had been before this started.” Throughout the quarter, Bernanke continued to stay true to his newfound optimistic nature. He praised the success of much of the economic stimuli; announced the winding down of certain “favorable” programs (i.e. Treasury purchases); proclaimed the end of the recession; and even had time to join Prez O on his family vacation (where he was given a vote of confidence and nominated for another term at the helm of the Fed). Dr. B. and his policy-maker friends chose to hold the funds rate steady (at basically 0%) as labor continued to be a key hindrance to economic growth and, in particular, the pace of the consumer activity. Despite his positive attitude, Bernanke made no bones about the dire unemployment situation and even warned that a 10%+ rate was all but a forgone conclusion. While numerous lawmakers have made him one of their favorite “whipping boys” of the past year (along with “cohort” Hank Paulson and “adversary” Ken Lewis), Fed watchers expect him to be confirmed to promote continuity during the recovery.

Labor: While the labor market may very well get worse before it gets better, the optimists point out that the pace of job losses is actually looking better. Though the unemployment rate in August climbed to a 26-year high of 9.7%, the 216,000 jobs lost from the economy represent a substantial improvement from the 700,000 monthly contractions earlier in the year. (How’s that for optimism?) **Manufacturing:** On a brighter note, the ISM – Manufacturing index climbed back above 50 in August, the first sign of sector expansion since January 2008. **Housing:** With mortgage rates at historically low levels and the government offering tax breaks, would-be-buyers have great incentives to purchase homes. Additionally, housing prices remain well below levels of 2007 and 2008 and new and existing home sales statistics are revealing renewed activity. **Consumer:** Retailers continue to be fearful of the upcoming holiday season. While the recent sales numbers have looked a tad better (thanks “cash for clunker”), the ongoing concerns about the labor picture have kept folks out of the malls. However, the most recent Reuters/U of Michigan sentiment index was reported as its most optimistic reading since January 2008. **Inflation:** Despite the volatility in the energy sector, most economists are not too worried about price pressures these days, though many point to the ballooning deficit (government spending) and declining dollar as worrisome signs for the future (a major problem, but for another day).

On the Horizon...As the country (world) “celebrates” the anniversary of **Lehman, AIG**, and the global financial debacle, earnings season could become more meaningful over the next few quarters. Relative comparisons with past results may begin to look better as the economy shows signs of a (slow) rebound and business confidence returns. While the equity markets have surged quite a bit since early March, some analysts believe the renewed IPO and M&A activity actually may propel the indexes even higher (though others remain highly skeptical). Ultimately, the Fed must begin to unwind some of the stimuli and no one really knows how the economy and markets will respond once that much-needed life support is removed. Up to the task again, Dr. B.?

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