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AND THAT'S THE "YEAR" THAT WAS... For the Year Ended December 31, 2009

Market Matters...

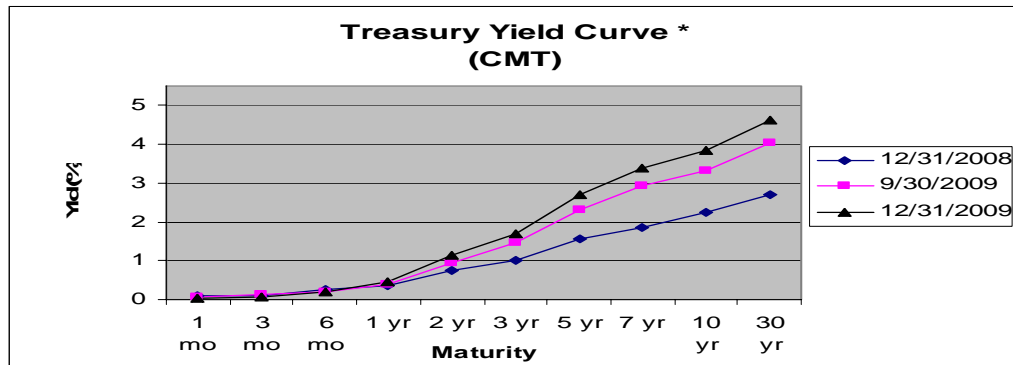
Market/Index	2008 Close	2009 Close	1 st Qtr Return	2 nd Qtr Return	3 rd Qtr Return	4 th Qtr Return	2009 Return
Dow Jones Industrial	8,776.39	10,428.05	-13.30%	+11.01%	+14.98%	+7.37%	18.82%
NASDAQ	1,577.03	2,269.15	-3.07%	+20.05%	+15.66%	+6.91%	43.89%
S&P 500	903.25	1,115.10	-11.67%	+15.22%	+14.98%	+5.49%	23.45%
Russell 2000	499.45	625.39	-15.36%	+20.23%	+18.89%	+3.49%	25.22%
Global Dow	1526.21	1,984.48	-11.72%	+20.92%	+16.28%	+4.74%	30.03%
Fed Funds	0.25%	0.25%	0 bps	0 bps	0 bps	0 bps	0 bps
10 yr Treasury (Yld)	2.24%	3.85%	+44 bps	+84 bps	-21 bps	+54 bps	161 bps

Just how does one sum up 2009? Nightmare on Wall Street or a time for more portfolio risk? The worst economic downturn since the Great Depression or the sharpest equity rally since 1933? A "too far, too fast" rebound or a tremendous buying opportunity with excess cash on the sidelines? A "lost decade" or a new beginning? And the answer is...YES. For the first two-plus months of the year, the world was still coming to an end. Bailouts and stimuli dominated the news and automakers joined financial services firms in search of government handouts and bankruptcy protection. Credit (corporate borrowing) was all but non-existent; equities continued their tailspin; nervous investors sought the safe-haven of treasuries (or even gold). By early March, stocks had fallen to their lowest level in 12-years and the "lost decade" was complete.

But a funny thing happened as the first quarter neared a close. Investors looked at the carnage and found value in certain decimated sectors: financials, energy, basic materials. March 2009 was the best performing month for domestic equities since October 2002, and emerging markets once again regained some luster. Slowly but surely, banks began paying off their bailout loans; automakers came up with restructuring plans; technology experienced a resurgence as analysts predicted a buying spree once the recession came to a close. By quarter three, confidence returned to the corporate boardrooms in the form of enhanced IPO and M&A activity; "cash for clunkers" brought buyers back to the auto lots; earnings began besting expectations; and the Dow Jones enjoyed its best performance since 1998. Some naysayers expressed concerns that stocks had moved "too far, too fast," but the newfound, friendly bullish trend took on a life of its own.

The fourth quarter represented more of the same (though the pace calmed just a bit). Earnings looked strong (thanks **Intel**, **Google**, **JP Morgan-Chase**, etc.), at least compared to the dismal results of 12-months prior. **Pfizer** and **Wyeth** closed on their \$68 billion merger deal; **Exxon-Mobil** made inroads into natural gas with the \$31 billion purchase of **XTO**; **Kraft** took aim at **Cadbury** (to be continued in 2010); and Warren Buffett found value in the trains (**Burlington Northern**) to the tune of \$27 billion. **Goldman Sachs** listened to regulators and shareholders and restructured exec comp plans away from cash bonuses. Oil stayed range-bound (between \$70 and \$80/barrel) as traders flip-flopped over supply/demand issues, the weak dollar, and an economic recovery (even a modest one). Risk averse investors digested the record treasury issuance, while others sought the attractive yields of junk bonds where Triple-C rated debt more than doubled in value in 2009. After hitting a low point in early March, the Dow surged almost 60%, and Nasdaq skyrocketed almost 80%. Technology, basic materials, and consumer services were among the year's strongest sector performers, while Russia, India, China and Brazil experienced solid gains abroad. The new year brings plenty of uncertainty (jobs, consumer, Dubai), but a far more optimistic attitude as the "nightmare" appears to have (finally) ended. Happy New Year!!!

Economically Speaking...



* Reflects changes in interest rates over various time frames.

While Fed Chairman Ben Bernanke has received more than his fair share of criticism from grandstanding politicians, he deserves plenty of credit for “righting” the ship during the worst economic debacle of the generation. A scholar of the Great Depression, Dr. B. was up to the task and many of his non-traditional stimuli seemed to help evade a far worse fate for the global economy. While the oversight role of the Fed may yet change in the near future, he seems destined to lead the Board for another term, despite the constant critiques from those finger-pointers running for reelection. The next test comes as the Fed begins to unwind certain stimuli and the economy is forced to go at it alone without an open checkbook from the gov. Housing appeared to slow when buyers thought the tax credit for new homeowners was coming to a close, only to rally again in the months to follow once it was extended. At some point in 2010, the various temporary programs will end, rates will move higher (from 0%), and capitalism will again be tested. But for now, Dr. B. can bask in the glow as *Time* magazine’s “Person of the Year.”

Turning to the numbers...the economic data showed steady improvement throughout the year, until finally the recession was deemed “history.” Third quarter GDP grew by (a revised) 2.2%, the first such expansion since second quarter 2008. **Manufacturing:** Factory orders rose six of the past seven months and the overall sector seems primed for continued expansion into 2010 as producers increase output (and capacity). **Housing:** Sales and building activity picked up once the tax credit for first-time homebuyers was extended, though prices remain well below levels of prior years as foreclosures and distressed sales offer great bargains for those in the market these days. **Labor:** The jobs situation remains the one negative wildcard on the economy, though the slight uptick in the November unemployment rate (10% from 10.2%) gave workers reason for optimism. Likewise, the pace of nonfarm payroll contractions has dropped in recent months and some sectors appear primed to add employees during 2010. **Retail:** Consumer activity makes up about 2/3 of the economy so the somber jobs picture has taken a toll on individuals’ ability to spend. However, despite the traditional pessimism, retailers seemed to enjoy a late round of surprisingly strong sales activity during the holiday shopping season (thanks for the discounting, **Wal-Mart**, etc.) and even a surge in consumer confidence heading into the new year.

On the Horizon...The short answer: *who the heck knows?* Few predicted the financial debacle and related credit crisis of 2008-09. Fewer were calling for 50%+ equity returns once stocks hit March lows with the country on the verge of depression. And yet, leading economic indicators has increased eight straight months; the slope of the yield curve (difference between short- and long-term rates) projects continued strength on the horizon; and **iMarketNet** claims investors own \$3 trillion in money markets and could move into riskier assets (stocks) over time. Sure, the gov will close its checkbook at some point and no one knows exactly how the markets/economy will react. But the tide has definitely turned and folks are feeling better than last year this time.