Market Commentary

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Market Returns

	YTD 2/9/10	January 2010	2009		YTD 2/9/10	January 2010	2009
DJIA	-3.5%	-3.5%	18.8%	MSCI EAFE	-7.6%	-4.4%	27.8%
S&P 500	-4.0%	-3.7%	23.5%	MSCI Emerg Markets	-8.2%	-5.7%	74.5%

JANUARY Fittingly, after going on record in last month's Market Commentary that we had confidence in the US equity markets, January delivered the second market decline since early March, 2009. While we may not have dazzled you with our near-term prognostications, we are still confident 2010 will turn out well. A pause in the rally is natural and to be expected, but when it happens, the tendency is to fear far worse to come, especially after the trauma of 2008 and early 2009.

The performance divergence between the US and global markets since January, with the latter declining twice as badly as the former, was likely due to Greece's budget and debt problems weighing on European markets. Emerging markets have lagged as well, but more from China's tapping the brakes on its economy than any association with Greece's problems. It appears these issues are being resolved within Europe.

THREE BULLISH FACTORS STILL IN PLACE First, a contrary indicator: For all of 2009, taxable and tax-exempt bond funds had net investor inflows of $374.6 billion, while international and US stock funds had $8.8 billion in net outflows, in spite of last year's stunning 23.5% advance in the S&P 500. Second, the rolling 10-year average return on the S&P 500 is -0.9% as of the period ending December 31, 2009, an *order of magnitude* below the 10.9% average return covering rolling ten-year periods since 1927. The US has shown the ability to recover from adversity, and patience has been rewarded. Finally, Federal Reserve Chairman Ben Bernanke said today, *"The FOMC anticipates that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period."* Historically, low interest rates have been strongly correlated to good stock market performance.

ANGRY BILL Bill Gross, manager of PIMCO Total Return Fund, delivered the following rant in his January, 2010 *Investment Outlook: Question: What has become of the American Nation?...Our government doesn't work anymore, or perhaps more accurately, when it does, it works for special interests and not the American people. Washington consistently stoops to legislate 10,000 page perversions….overflowing with earmarks that serve monied minority as opposed to the all-too-silent majority. What most politicians apparently are working for is to perpetuate their power—first via district gerrymandering, and then second by around-the-clock campaigning financed by special interest groups….There has been no change, there will be no change, until we the American people decide to publicly finance all national and local elections and ban the writing of even $1 check for our favorite candidate."* Feeling as he does, it is no surprise his recent bond fund additions have been German government bonds and an underweighting of US Treasuries.

Growing Middle Class International Monetary Fund data shows that in 2006, just over 50% of the world population was middle class. Since then, the global middle class has grown even larger, as evidenced by data from the Customs General Administration, a Chinese government agency. China's December 2009 exports to Southeast Asia were $13.1 billion, up from $10.8 billion the month before. Perhaps the rising global middle class, largely in developing economies, will pull the developed economies out of recession. Previously, the US was looked upon as the engine that pulled the global economy out of economic slowdowns.

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