

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	December	2009
Dow Jones Industrials	-12.6%	11.0%	15.0%	7.4%	0.8%	18.8%
S & P 500	-11.9%	15.9%	15.0%	5.5%	1.7%	23.5%
MSCI EAFE	-14.6%	18.8%	18.8%	1.8%	1.7%	27.8%
MSCI Emg Mkts	0.5%	20.1%	20.1%	8.3%	3.8%	74.5%

A RARE PREDICTION: We have expounded, *ad nauseam*, over the futility of market timing, choosing instead to prudently allocate clients' assets in a manner that makes them comfortable in both bull and bear markets. Similarly, we have repeatedly "taken the Fifth" when it comes to predicting the market's future. That said, it is impossible to work in this business without having an opinion, so with some trepidation, we will go on record saying we are comfortable, even bullish, about the market's 2010 prospects. We base our confidence on three powerful factors:

FIRST The December 20, 2009 *Wall Street Journal* reported that new millenium's first decade has been the worst for stocks since the 1830s, declining 0.5%. These are not rolling 10-year periods, but rather whole decades starting in a zero. Even the bear market decade of the 1970's gained 6.6% over 10 years, losing only 1.2% after inflation. Unless you believe the US is in a period of long economic decline, better days must lie ahead. However, even if decline is America's future, a significant portion of our clients' assets are invested in fixed income and international markets, which usually do not correlate closely with U.S. equities. Hedge fund superstar David Tepper, who earned \$2.5 billion this year due to his fund's extraordinary performance, discounts the economic decline thesis. He summarized his bullish market bet, which began in the dark winter days of 2009, as follows: "*Economies are like trees. Their natural state is to grow, so optimism usually is rewarded.*"

SECOND Since market pundits are frequently quoted guessing in which quarter in 2010 the Federal Reserve will start raising short-term interest rates, it came as a shock on December 20th when Chicago Federal Reserve President Charles Evans said on CNBC: "*We have said that interest rates will remain low for an extended period of time, now that's not into 2012, I would say, but it is the case that monetary policy accommodation is called for. I think that with the unemployment rate declining in 2011 to 7 or 8 percent that there is still going to be a lot of accommodation that will be required.*" While we certainly can't give Mr. Evans high marks for clarity, he seems to be saying interest rates will remain low through 2010 and well into 2011, and low interest rates are a tailwind for strong equity markets.

THIRD The torrent of money leaving mutual funds reversed the third week of March, 2009, but rather than buying stock funds, which were exceptionally cheap at that time, investors piled into bond funds, while domestic equity mutual funds continued seeing outflows. In spite of the most dramatic stock market rally since 1930 (65% since March), investors remain skeptical, and are showing with their money they doubt the strong market will continue. The media shares this sentiment, as headlines adorned *Newsweek's* cover on December 28 asking, "*BUY? SELL? PRAY?*" Our suggestion: SMILE. Given our adherence to the "School of Contrary Opinion," we will happily take the other side of that trade, and are confident entering 2010.

FINALLY We cannot close 2009's last "Market Commentary" without some reference to New Year's Resolutions, so here is one for you, courtesy of David Lisbon, Economics Professor at Harvard, and presumably, a really smart guy: "*Promise that you'll never try to time the market again,*" he suggests, which is aimed squarely at the many investors who sold everything in March and sat out the huge rally that followed.

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