

	Market Returns				
	March	Year-to-date		March	Year-to-date
DJIA	5.1%	4.1%	MSCI EAFE	5.8%	0.2%
S&P 500	7.1%	4.9%	MSCI Emerg Markets	8.0%	2.1%

MARCH After the market's January stumble (S&P -3.7%), it regained footing in February (2.8%), and caught its stride in March. 2010 has begun well, with excellent returns and low volatility. Market watchers appearing on CNBC and elsewhere often cite the current low trading volume as a concern. For long-term investors, a market moving quietly upward is comforting. To the volume watchers, we would say the final arbiter of market performance is price, which is currently moving in the right direction.

INVESTOR PRECEPTION OR REALITY? A Bloomberg National Poll conducted March 19-22 reported, "Among those who own stocks, bonds and mutual funds, only three out of ten people say their portfolio has risen since a year ago. Mark Zandi, chief economist for Moody's Economy.com, says the poor investment performance people report "is very telling. It's just a fact that everyone's stock portfolio is up, or nearly everyone's." If you know any of those 7 in 10 who report they have not seen portfolio gains in the last year, **please send them our way.**

VOLATILITY INDEX ("VIX") This index has returned a normal range, that is to say, boring. In the simplest terms, VIX measures how much the market is bouncing around. It is seen as a gauge of fear or complacency. VIX is also an input for esoteric pricing models of many financial instruments, including exchange-traded options. A lower VIX implies lower options prices, which enable large institutional portfolios to buy option "protection" more cheaply. One result of a low VIX is market participants have a cheaper risk management tool that allows them to be more comfortable buying stocks.

AMERICANS PARE DOWN DEBT In a March 12th article of that title, *The Wall Street Journal* reported, "Total US household debt, including mortgages and credit-card balances, fell 1.7% in 2009 to \$13.5 trillion, the Federal Reserve reported Thursday—the first annual drop since records began in 1945. The debt amounts to \$43,874 per U.S. resident." At first blush a positive sign but they went on, "The drop reflects the extent to which job losses and a moribund housing market are forcing people to default on mortgages and other obligations, a painful process that has slammed millions of families and hit banks and investors with hundreds of billions of dollars in losses." But there is a silver lining, "At the same time, the defaults are leaving many people with more cash to spend and save, jump-starting the financial rehabilitation, or 'deleveraging,' that economists see as a crucial prerequisite to robust growth."

THE 800 POUND GORILLA Wall Street fears what will happen to bond and stock prices when the Fed starts to drain liquidity and raises the Fed Funds rate. Citi Global Wealth Management says this fear is overblown. "US and global equities historically have produced impressive returns in the period leading up to the first Fed tightening and near-average returns in the year following... In the year following the first Fed tightening, US and global equities have averaged 8% and 12% returns, in US dollars, respectively." In other words, by the time the Fed gets serious, the economy will be on strong enough legs to sustain the Federal Reserve's actions. When will the Fed first raise the Fed Funds rate? Our guess is at the November meeting of the Federal Open Market Committee.

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