MARKET COMMENTARY – APRIL 2009

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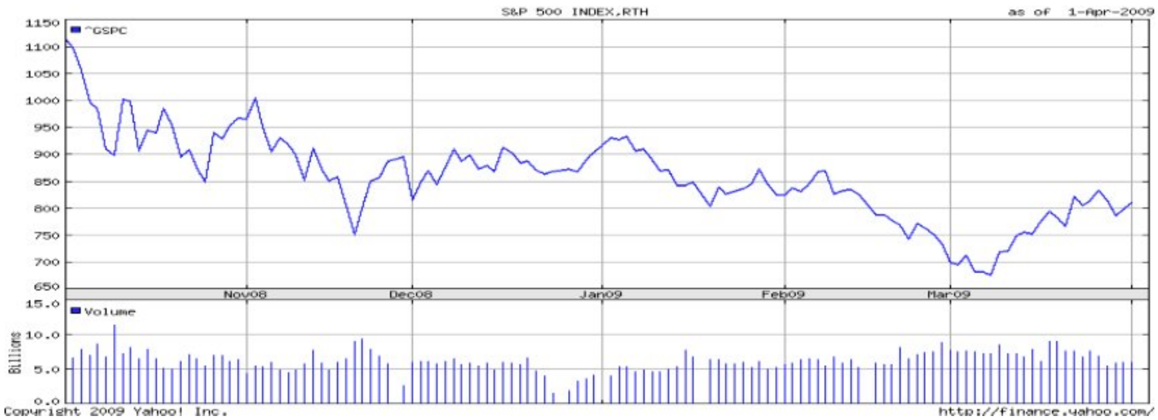
Dear Clients,

I am happy to report some good news in the markets for a change! The stock market is up nicely this week partly as a result of some well coordinated statements from the G-20 economic summit. And the major stock market indexes have recovered from the lows established in early March. In the past four weeks, the S&P 500 index is up close to 22%, international developed markets are up 27%, and emerging markets are up 30%. See below for a six month chart of the S&P 500 index.



I believe the new lows of early March were the result of another "panic attack" in the markets, similar to the episode we suffered in late November. Fears of a complete collapse of the banking system and a global economic depression were back on the table. Long term buyers were sidelined by uncertainty about future government policies, including talk about the full nationalization of major US banks. And the selling was accelerated and exploited by traders and short sellers who profit from these dramatic moves in the market. But since early March, a series of positive factors have contributed to the quick rebound:

- Treasury Secretary Geithner finally announced the details of his Public Private Investment Program (PPIP), a $1 trillion plan to purchase "toxic assets" from the banks using a combination of TARP funding, private investments and loans from the Fed. This program will help stabilize the banks and free up capital for new lending. The market was up 7% on the day this program was announced.

- The Financial Accounting Standards Board announced a relaxation of the "mark-to-market" accounting rule which forced banks to write down their long term mortgage assets to current fire sale prices, leading to a desperate need for additional capital. In my opinion, this change was appropriate, necessary and long overdue.

- Although today's unemployment data was very bad (as expected), we have started to see some glimmers of hope in the economic data, including housing, construction, manufacturing and retail sales, that indicate a potential turning point. For example, pending home sales and factory orders were up and better than expected this week.

- Market psychology seems to be changing too. Investors are now beginning to look forward to a potential economic turnaround and recovery from the current recession. Sooner or later, the unprecedented scope and scale of government policies intended to stabilize the banking system and stimulate the economy will begin to have a positive effect, especially when combined with similar steps being taken around the world (as reflected by the G-20 announcements made this week).

Despite the recent bounce back, we are still in a very deep whole - with a long way to go before we recover the losses we have seen in the last year. The S&P 500 is still down 7% in 2009 and down 38% in the past 12 months. So where could we go from here? Unfortunately I don't have a crystal ball. But here is my analysis of the potential future scenarios for the market in 2009 and beyond:

- **Falling off the Cliff.** The most pessimistic scenario is that the economy will continue to weaken into a much deeper and longer recession. Housing prices will fall further from here. Many banks will fail or require more injections of capital from the government. Unemployment will rise to 10% and more. Corporate earnings will fall dramatically. So will the equity markets. This view of the future assumes that the US government's monetary and fiscal policies will be ineffective or defective. In my opinion, this scenario is possible, but not probable. However, if you fall into this camp, you would probably want to take some money out of the equity markets now and any time there is a rally this year.

- **Going Nowhere Fast.** Another point of view is that things are not going to get worse, but they are not going to get much better either. In other words, we have had a near permanent reduction in the size of the US economy. Asset prices will stay at the current levels. Consumers will spend less. Businesses will earn less. There will be fewer jobs. And future growth in the economy will be relatively stagnant. The global economy will be stagnant too since we will be buying less of everything. In this scenario the markets will move up and down, but there won't be a lot of real growth. Returns will be positive but low single digits across all asset classes, from cash to bonds to stocks. I don't agree with this view of the future, but this scenario is possible. However, even if you fall into this camp, I would not dramatically change your investment strategy. Instead I would focus my efforts on spending less and saving more. We should all be doing this anyway...

- **Return to Normalcy**. The most optimistic scenario is based on the assumption that the massive amount of government intervention in the economy will be relatively successful in restoring stability in the banking system, restructuring the auto industry without bankruptcy, and stimulating economic growth. The economy will bottom out over the next few months and begin to recover late this year or early next year. In anticipation of this economic recovery, equity markets will continue to recover and end the year with positive returns, although there will likely be a lot of ups and downs in between. The recovery could even be dramatic as investors begin to invest the massive amount of cash which is currently sitting on the sidelines earning almost nothing. As you might expect, I am in this optimistic camp. However, I believe the "new normal" could be very different form the elevated levels of the recent past. Asset prices, including commodities, homes and stocks, will not get back to the highs of 2007 for a long time. And future growth in the US and developed world will be sluggish at best. Most of the growth in the global economy will be in the emerging markets. If you agree with this scenario, then I recommend a return to your long term asset allocation by rebalancing your portfolio and investing any excess cash over time.

As always, please feel free to call me if you would like to discuss current market conditions or your specific financial situation and investment portfolio. In the meantime, I will be working on your investment analysis for the first quarter. I will contact you in the next few weeks to review the report and discuss my specific recommendations.