Recap Of The Financial Markets

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Week Ended June 5th 2009

To repeat a law of physics "a body in motion tends to stay in motion while a body at rest tends to remain at rest." This is very similar to the most recent action of stocks. Like the mirror image of 2008, stocks continue to wind their way upward and it won't be until, most likely an unforeseen event that this will come to an end. That said, over the past 1½ months we have stated within this "recap" that we believe that a correction, the cause of which is unforeseeable of perhaps up to ten percent, could come at any time but would, as noted above, allow investors an entry point. However, whether cyclical or secular, after the period of consolidation or correction noted above, we believe that this rally still has legs. We find it encouraging that the economic, corporate and consumer data has been coming in at or above expectations, indicating to us that the fifty-five plus percent drop from the top as registered by most major indices had priced in a severe recession. Given that we are at the upper end of the post-2008 debacle range, we'll see if we can break through. Furthermore, third quarter y/y earnings reports should begin to look a lot better. We have stated repeatedly since the beginning of the year that Mortgage-Backed, Corporate and General Obligation municipal bonds are very attractive relative to treasuries and we strongly recommend that investors take advantage of this. We would encourage equity investors to add to positions **on fear and weakness rather than strength**.

Index	Weekly Change	Closing Value	% Change Prior Week	Year-to-Date % Change	Trailing 12 Mo. % Change
Dow Jones Ind. Avg.	+262.80	8763.13	+3.09%	-0.15%	-28.23%
S&P 500	+20.95	940.09	+2.28%	+4.08%	-30.91%
NASDAQ Comp.	+75.09	1849.42	+4.23%	+17.27%	-25.26%
DJ Wilshire 5000	+246.52	9654.77	+2.62%	+6.25%	-30.66%
Russell 2000	+28.78	530.36	+5.74%	+6.19%	-28.37%
Dow Utilities	+3.61	344.60	+1.06%	-7.06%	-32.61%
Dow Transports	+147.53	3349.98	+4.61%	-5.29%	-36.19%

Index	*Closing Record High*	*Date of Closing Record High*	*% from Prior Record High*	*March 9th, 2009 Closing Low*	*% From Closing Low Mar 9, 2009*
Dow Jones Ind. Avg.	14164.53	9-Oct-2007	38.13%	6547.05	33.85%
S&P 500	1565.15	9-Oct-2007	39.94%	676.53	38.96%
NASDAQ Comp	5048.62	10-Mar-2000	63.37%	1268.24	45.83%
DJ Wilshire 5000	15806.69	9-Oct-2007	38.92%	6858.43	40.77%
Russell 2000	855.70	13-July-2007	38.02%	343.26	54.51%
Dow Utilities	552.74	10-Dec-2007	37.66%	290.68	18.55%
Dow Transports	5446.49	19-July-2007	38.49%	2146.89	56.04%

Index	*Close on Dec 31, 1999*	*Post Attack Low Sept 21, 2001*	*Year End 2007 Close*	*Year End 2008 Close*	*2008 Change*
Dow Jones Ind. Avg.	11497.12	7926.90	13,264.82	8,776.39	-33.84%
S&P 500	1469.25	944.75	1,468.36	903.25	-38.49%
NASDAQ Comp.	4069.31	1387.06	2,652.28	1,577.03	-40.54%
DJ Wilshire 5000	13812.70	8900.45	14,819.58	9,087.17	-38.68%
Russell 2000	504.75	378.89	766.03	499.45	-34.80%
Dow Utilities	283.36	316.19	532.53	370.76	-30.38%
Dow Transports	2977.20	2054.84	4,570.55	3,537.15	-22.61%

Index	*Post-Attack Closing High*	*% from Post Attack Close High*	*Post-Attack High to March 9th Closing Low*		
Dow Jones Ind. Avg.	14164.53	38.13%	53.78%		
S&P 500	1565.15	39.94%	56.78%		
NASDAQ Comp.	2859.12	35.32%	55.64%		
DJ Wilshire 5000	15806.69	38.92%	56.61%		
Russell 2000	855.70	38.02%	59.89%		
Dow Utilities	552.74	37.66%	47.41%		
Dow Transports	5446.49	38.49%	60.58%		

MARKET INTERNALS

	Friday		Monday	Tuesday	Wednesday	Thursday	Friday
Date	May 29th		June 1st	June 2nd	June 3rd	June 4th	June 5th
Dow Change	+96.53		+221.11	+19.43	-65.59	+74.96	+12.89
NYSE Volume	1.774 b		1.493 b	1.397 b	1.312 b	1.337 b	1.258 b
Mkt Vol Index (^vix)	28.92		30.04	29.63	31.02	30.18	29.62
NASDAQ Close	**1774.33**		**1828.68**	**1836.80**	**1825.92**	**1850.02**	**1849.42**
NASDAQ Change	+22.54		+54.35	+8.12	-10.88	+24.10	-0.60
NASDAQ Volume	2.601 b		2.663 b	2.421 b	2.315 b	2.506 b	2.315 b
NASDAQ Vol Index (^vxn)	29.44		30.72	30.61	31.45	31.05	30.71
S&P 500 Close	**919.14**		**942.87**	**944.74**	**931.76**	**942.46**	**940.09**
S&P 500 Change	+12.31		+23.73	+1.87	-12.98	+10.70	-2.37
Russell 2000 Close	**501.58**		**521.33**	**526.63**	**522.71**	**531.68**	**530.36**
Russell 2000 Change	+9.37		+19.75	+5.30	-3.92	+8.97	-1.32
Wilshire 5000 Close	**9408.25**		**9666.39**	**9694.10**	**9557.28**	**9674.05**	**9654.77**
Wilshire 5000 Change	+130.80		+258.14	+27.71	-136.82	+116.77	-19.28
Dow High (a)	8522.95		8760.70	8787.13	8740.39	8751.25	8839.40
Dow Low (a)	8368.52		8501.29	8693.72	8598.38	8634.57	8700.41
Dow at 10:00 a.m.	8409.14		8644.82	8746.99	8660.83	8671.05	8774.48
Dow 1 Hour Before Close	8399.26		8733.22	8751.93	8625.38	8729.19	8769.94
Dow Close	***8500.33***		***8721.44***	***8740.87***	***8675.28***	***8750.24***	***8763.13***
Variation	154.43		259.41	93.41	142.01	116.68	138.99
Variation vs. Prior Day Close	1.84%		3.05%	1.07%	1.62%	1.34%	1.59%
Close Off Low	131.81		220.15	47.15	76.90	115.67	62.72
Close Off High	22.62		39.26	46.26	65.11	1.01	76.27
Dow first ½ hr	+5.34		+144.49	+25.55	-80.04	-4.23	+24.24
Dow Close v. 10:00 am Price	+91.19		+76.62	-6.12	+14.45	+79.19	-11.35
Dow Last Hour	+101.07		-11.78	-11.06	+49.90	+21.05	-6.81
NYSE Advances	2247		2535	1824	848	2362	1499
NYSE Declines	818		578	1246	2212	700	1553
Unchanged	91		67	80	94	94	99
New Highs	17		31	21	12	17	26
New Lows	4		2	3	2	3	2
NYSE Up Volume	1.308 b		1.078 b	727 mm	163 mm	970 mm	457 mm
NYSE Down Volume	442 mm		332 mm	661 mm	1.139 b	355 mm	767 mm
NASDAQ Advances	1921		2078	1532	1055	1942	1245
NASDAQ Declines	837		673	1164	1626	757	1460
Unchanged	118		119	152	148	156	162
New Highs	35		56	51	25	32	42
New Lows	11		8	4	2	1	5
NASDAQ Up Volume	1.733 b		2.300 b	1.246 b	813 mm	1.968 b	1.098 b
NASDAQ Down Volume	676 mm		290 mm	1.050 b	1.440 b	450 mm	1.146 bs

Yields On Selected United States Treasury Obligations (Bloomberg Key Rates)

	June 5th, 2009	***May 29th, 2009***	***May 22nd, 2009***	***May15th, 2009***	***Dec 31st, '08***	***Dec 28th, '07***
3 month T-bill	0.18%	0.13%	0.17%	0.16%	0.08%	3.14%
6 month T-bill	0.33%	0.28%	0.29%	0.26%	0.26%	3.42%
12 month T-bill	0.60%	0.44%	0.45%	0.47%	0.34%	
2 year T-note	1.29%	0.91%	0.88%	0.85%	0.76%	3.11%
3-year Treasury Note	1.84%	1.40%	1.38%	1.30%	0.97%	
5 year Treasury Note	2.83%	2.34%	2.20%	2.00%	1.55%	3.50%
7-year Treasury Note	3.53%					
10 year Treasury Note	3.83%	3.46%	3.45%	3.13%	2.21%	4.08%
30 year Treasury Bond	4.63%	4.34%	4.38%	4.08%	2.68%	4.50%
Current Prime Rate	3.25%	3.25%	3.25%	3.25%	3.25%	7.25%
Current 1-mo LIBOR	0.32%	0.32%	0.31%	0.33%	0.44%	4.63%
Current 3-mo LIBOR	0.63%	0.66%	0.66%	0.83%	1.42%	4.73%
TED-Spread	45 bps	53 bps	49 bps	67 bps	134 bps	
Spread b/t 10 & 2 Yr. T-Note	254 bps	255 bps	257 bps	228 bps	145 bps	97 bps
1 mo. LIBOR v. Fed Funds	7 bps	7 bps	6 bps	8 bps	19 bps	38 bps

Investor Sentiment (AAII Index, Barron's)			
	Last Week	***Two Weeks Ago***	***Three Weeks Ago***
Bulls	47.6%	40.4%	33.7%
Bears	36.6%	48.6%	45.4%
Neutral	15.9%	11.0%	20.9%

	Current	***One Month Prior***	***Three Months Prior***	***Six Months Prior***	***One Year Prior***	***Year End 2008***	***Year End 2007***
1-Year Adjustable	4.55%	5.28%	4.94%	5.59%	6.07%	5.65%	5.11%
15-Year Mortgage	4.97%	4.80%	4.82%	5.38%	5.63%	5.12%	5.38%
30-Year Mortgage	5.45%	5.00%	5.20%	5.65%	6.08%	5.30%	5.57%

Pertinent Weekly Financial Data					
	June 5th	***May 29th***	***May 22nd***	***May 15th***	***December 31st, 2008***
NYSE Total Issues	3234	3218	3230	3225	
NYSE Advancing Stocks	2402	2515	2258	652	
NYSE Declining Stocks	794	652	925	2532	
NYSE Unchanged Stocks	38	51	47	41	
NYSE New Highs	56	32	27	12	
NYSE New Lows	7	13	12	20	
NYSE Total Weekly Volume	6,797,676	5,837,186	6,765,053	7,835,766	
NASDAQ Total Issues	2995	3000	3011	3023	
NASDAQ Advancing Stocks	2048	2123	1682	863	
NASDAQ Declining Stocks	870	807	1261	2096	
NASDAQ Unchanged Stocks	77	70	68	64	
NASDAQ New Highs	129	94	86	54	
NASDAQ New Lows	19	23	21	34	
NASDAQ Total Weekly Volume	12,219,661	9,154,036	10,409,858	11,863,379	
Unleaded Gasoline Prices Per Gallon	$2.524	$2.435	$2.309	$2.240	$1.613
West Texas Intermediate Crude Futures	$68.44	$66.31	$61.67	$56.34	$44.60
Natural Gas Futures Per mm BTU	$3.868	$3.835	$3.515	$4.098	$5.622
Copper Futures Per Pound	$2.28	$2.20	$2.10	$2.02	$1.41
Soybean Futures Per Bushel	$12.25	$11.84	$11.66	$11.30	$9.80
Corn Per Bushel	$4.44	$4.36	$4.30	$4.17	$4.07
Price of Gold Per Ounce	$962.60	$980.30	$958.90	$931.30	$884.30
Price of Silver Per Ounce	$15.28	$15.75	$14.70	$13.99	$11.29

**Every $0.01 move downward in the price of a gallon of gas saves consumers $1.4 billion. At the close of 2007, the average price of a gallon of was $3.05.*

Value of U.S. Dollar versus the World's Other Major Currencies (Bloomberg.com). Dollars to buy one…							
	June 5th, 2009	***May 29th, 2009***	***May 22nd, 2009***	***May 15th, 2009***	***May 8th, 2009***	***Dec 31st, 2008***	***Dec 28th, 2007***
Euro	1.3968	1.4158	1.3998	1.3495	1.3634	1.3978	1.4724
British Pound	1.5981	1.6190	1.5932	1.5181	1.5235	1.4648	1.9966
Japanese Yen	0.0101	0.0105	0.0106	0.0105	0.0102	0.0110	0.0089
Canadian Dollar	0.8937	0.9161	0.8933	0.8491	0.8699	0.8170	1.0186
Swiss Franc	0.9213	0.9373	0.9213	0.8916	0.9045	0.9350	0.8880

First Call/Thomson Financial Projected 2009 Earnings & Price to Earnings Ratios For Dow Jones Industrial Average. (Barron's MW 53)							
	June 5th	***May 29th***	***May 22nd***	***May 15th***	***May 8th***	***May 1st***	***Apr 24th***
Projected Earnings	$592.43	$351.39	$356.89	$353.86	$360.24	$366.40	$365.10
P/E Ratio	14.8	23.9	23.2	23.5	23.4	22.3	21.8

SECTOR WEIGHTINGS – Sector Weightings of the iShares S&P 1500 Index Fund								
Industry	***Mar 31st, 2009***		***Dec 31st, 2008***	***Sept 30th, 2008***	***Mar 31st, 2008***	***Dec 31st, 2008***	***Dec 31st, 2007***	***Dec 31st, 2006***
Financials	11.68%	-2.18	13.86%	20.31%	21.65%	13.86%	21.04%	20.90%
Information Technology	17.77%	+2.60	15.17%	15.53%	15.17%	15.17%	14.69%	15.08%
Industrials	10.30%	-1.20	11.50%	11.99%	11.47%	11.50%	11.58%	12.27%
Health Care	14.66%	+0.12	14.54%	11.68%	11.89%	14.54%	11.86%	11.99%
Consumer Discretionary	9.49%	+0.56	8.94%	10.74%	11.23%	8.94%	11.08%	10.72%
Energy	12.23%	-0.24	12.47%	10.36%	9.52%	12.47%	9.81%	10.14%
Consumer Staples	11.81%	-0.14	11.95%	8.54%	8.49%	11.95%	8.82%	8.76%
Utilities	4.49%	-0.07	4.56%	3.81%	3.93%	4.56%	4.11%	3.79%
Basic Materials	3.66%	+0.42	3.24%	3.46%	3.27%	3.24%	3.42%	3.28%
Telecom Services	3.65%	+0.21	3.44%	3.35%	3.15%	3.44%	3.36%	2.94%

Sector Performance Week Ending June 5th v. Week Ending May 29th			
	Trailing Week	**Year-to-Date**	**Trailing Twelve Months**
Pos/Neg Last Week	86 / 12	67 / 31	1 / 97
Pos/Neg Last Week	89 / 9	56 / 42	1 / 97

Dow Jones U.S. Total Market Industry Groups for the Week Ended June 5th (Barron's MW 53)							
Past Week Top Performing Industry Groups				**Past Week Worst Performing Industry Groups**			
1	Aluminum	+18.47%	BM	98	Platinum & Precious Metals	-11.05%	BM
2	Industrial Machinery	+11.16%	IND	97	Gold Mining	-7.79%	BM
3	Tires	+11.08%	CG	96	Mobile Telecom	-3.92%	TEL
4	Aerospace	+11.03%	IND	95	Home Construction	-3.28%	CG
5	Consumer Electronics	+10.37%	CG	94	Mortgage Finance	-3.10%	FINL
6	Transportation Services	+9.86%	IND	93	Banks	-2.48%	FINL
7	Airlines	+9.56%	CS	92	Pharmaceuticals	-1.08%	HC
8	Commercial Vehicles	+9.26%	IND	91	Medical Supplies	-0.87%	HC
9	Automobiles	+8.75%	CG	90	Consumer Finance	-0.56%	FINL
10	Business Training	+8.18%	IND	89	Oil & Gas Exploration & Production	-0.42%	O&G

Dow Jones U.S. Total Market Industry Groups for the Week Ended May 29th (Barron's MW 57)							
Past Week Top Performing Industry Groups				**Past Week Worst Performing Industry Groups**			
1	Marine Transportation	+13.59%	IND	98	Airlines	-2.93%	CS
2	Platinum & Precious Metals	+12.45%	BM	97	Business Training	-2.02%	IND
3	Travel & Tourism	+11.20%	CS	96	Paper	-1.95%	BM
4	Nonferrous Metals	+10.93%	BM	95	Full Line Insurance	-1.81%	FINL
5	Steel	+10.01%	BM	94	Nondurable Household Products	-1.74%	CG
6	Coal	+9.84%	BM	93	Mortgage Finance	-0.95%	FINL
7	Oil Equipment & Services	+9.72%	O&G	92	Home Construction	-0.38%	CG
8	Footwear	+9.22%	CG	91	Publishing	-0.20%	CS
9	Heavy Construction	+9.03%	IND	90	Home Improvement Retailers	-0.03%	CS
10	Gambling	+8.98%	CS	89	Specialized Consumer Services	+0.34%	CS

Dow Jones U.S. Total Market Industry Groups or the Week Ended June 5th (Barron's MW 53)

	Past Week			Year-to-Date			Trailing 12 Months		
1	+6	Industrials	+5.62%		Basic Materials	+26.47%		Health Care	-18.44%
2	+3	Technology	+4.25%		Technology	+25.63%		Consumer Goods	-20.58%
3	-1	Consumer Goods	+3.00%		Consumer Services	+8.43%		Consumer Services	-24.65%
4		Consumer Services	+2.77%		Oil & Gas	+7.20%		Technology	-24.93%
5	-4	Basic Materials	+2.17%	+2	Industrials	+3.42%		Telecom	-33.45%
6	-3	Oil & Gas	+1.74%	-1	Consumer Goods	+3.28%		Utilities	-35.57%
7	+1	Utilities	+1.57%	-1	Health Care	-1.96%	+1	Oil & Gas	-35.04%
8	-2	Financials	+0.90%		Financials	-3.27%	-1	Industrials	-37.51%
9		Health Care	+0.15%	+1	Utilities	-6.91%		Basic Materials	-44.95%
10		Telecom	-0.70%	-1	Telecom	-7.32%		Financials	-45.32%

Dow Jones U.S. Total Market Industry Groups or the Week Ended May 29th (Barron's MW 57)									
	Past Week			Year-to-Date			Trailing 12 Months		
1	+6	Basic Materials	+4.76%	+1	Basic Materials	+18.27%		Health Care	-19.55%
2		Consumer Goods	+1.77%	-1	Technology	+14.55%		Consumer Goods	-23.58%
3	+6	Oil & Gas	+1.25%		Consumer Services	+3.18%		Consumer Services	-27.20%
4	+2	Consumer Services	+1.19%		Oil & Gas	-0.03%		Technology	-29.77%
5	-2	Technology	+0.66%		Consumer Goods	-0.81%		Telecom	-35.27%
6	+4	Financials	+0.63%		Health Care	-4.63%		Utilities	-39.31%
7	+1	Industrials	+0.05%		Industrials	-5.37%	+1	Industrials	-42.73%
8	-3	Utilities	-0.06%	+1	Financials	-8.75%	-1	Oil & Gas	-43.12%
9	-8	Health Care	-0.47%	-1	Telecom	-9.95%		Basic Materials	-48.54%
10	-6	Telecom	-3.15%		Utilities	-11.73%		Financials	-49.68%

Economic Releases

Majority of Economic Data found at www.haver.com

Friday, June 5th

NON-FARM PAYROLLS fell by 345,000 during May, the fewest number of job losses since this past September, far less than the consensus estimate which was for a loss of 520,000 jobs and perhaps an indication that the worst of the recession has passed. Once again, hardest hit was the construction sector which lost 59,000 jobs. Also of note were the layoffs in the service and manufacturing sectors, which shed 120,000 and 156,000 jobs respectively. At least for the time being, job cuts peaked during this past January at 741,000 the most since 1949. The **UNEMPLOYMENT RATE** rose to 9.4% during May from 8.8% one month prior, a high not witnessed since April-1983. The May drop brings the total number of jobs lost since this recession started in November 2007, seventeen months ago to 6.1 million, a record for this timeframe. The Unemployment Rate was 5.5% one year ago. That said, still a concern was the fact that the average duration of unemployment rose to a record 22.5 weeks during May from an average of 17.5 weeks during 2008. The **labor force participation rate** rose to 65.9% during May from 65.8% one month prior. **Average hourly earnings** rose $0.02 to $18.54 from $18.52 bringing the y/y increase to 3.1%. **Hours worked** slipped to 33.1 hours during May from\33.2 hours, thus marking a new record low. The combination pushed **average weekly earnings** down 0.20% or $1.19 to $613.67 from $614.86. Average weekly earnings have risen by just 1.2% over the past year.

The Federal Reserve reported that **CONSUMER CREDIT** fell an astounding $15.7 billion, more than 2.5 times the consensus estimate of $6.0 billion and a sign that consumers are continuing to repair their balance sheets. This would have been a record for this series which dates all the way back to 1943 had the Federal Reserve not revised the drop during April to $16.6 billion from an initially reported $11.1 billion. According to Haver Analytics, "Annualized, credit growth averaged 8% during the fifteen years ended 2007. Over an even longer time period that increase does not loom particularly large. However, against an average 5% growth in disposable income during those years, it precipitated a rise in the ratio to disposable income to 24% from a longer term norm of 17%." **Non-revolving credit** (automobiles & consumer durables), which accounts for nearly two-thirds of total consumer credit, fell by $7.10 billion while **revolving credit** (credit cards) outstanding fell by $8.6 billion during April, this according to the Federal Reserve.

Thursday, June 4th

FIRST QUARTER PRODUCTIVITY rose at an **UPWARDLY REVISED** annualized rate of 1.6% from an initially reported rate of 0.8%, thus reversing the 0.4% drop registered during Q4. The actual numbers were above the consensus estimate of 1.2%. Over the past year, productivity rose 1.9%. Accurately describing the data was Haver Analytics who noted that "any positive growth during recessionary periods contrasts with the declines during the downturns of the 1950s through the 1980s." **HOURLY COMPENSA-TION** rose at an annualized rate of 4.6% during Q1 (+4.1% y/y), down from 5.2% during Q4. **UNIT LABOR COSTS** (defined as output per hour of work and can be determined by dividing hourly labor costs by output per hour) rose at a revised annualized rate of 3.0% (initially 3.3%) during Q1, down from 5.7% during Q4 and from a y/y increase of 2.2%. Unit Labor Cost growth of 16.6% in

the factory sector was the result of a sharp decline in productivity.

INITIAL CLAIMS FOR UNEMPLOYMENT BENEFITS for the week ended May 30th fell by 4,000 this past week to 621,000 from 625,000 one week prior, *numbers consistent with an economy in recession.* The four-week rolling average increased 4,000 to 631,250 from a revised level of 627,250. Continuing claims for the week ended May 23rd fell 15,000 to 6.735 million from 6.750 million one week prior, double year-ago levels and near a record for the series which dates back to 1966. The continuing claims four-
week average increased 88,750 to 6.687 from 6.599 million, which does mark a record.

Wednesday, June 3rd

The Institute for Supply Management's **composite index of non-manufacturing (service) sector activity** rose to 44.0% during May from 43.7% during March and in doing so recorded its highest level since last October. Despite the fact that this report came in below
the consensus expectation of 45.0%, there was modest strengthening in **Employment** (39.0 v. 37.0) and the **Prices Paid Component** (46.9 v. 40.0). However, the report indicated stagnation or weakness in **New Orders** (44.4 v. 47.0), the **Backlog of Orders** (40.0 v. 44.0) as well as **New Export Orders** (47.0 v. 48.5).

U.S. FACTORY ORDERS rose 0.7% during April, reversing nearly all the 0.9% drop during March. However, excluding transportation, the factory orders rose just 0.1%, suggesting continued weakness in that sector. Excluding defense, factory orders rose by 0.3%, the first gain in nine months.

Monday, June 1st

The Bureau of Economic Analysis reported that **PERSONAL INCOME** during the month April rose by 0.5%, beating analysts expectations which was for a decline of 0.2%. Personal Income during March fell by 0.2%, while y/y it is up 0.7%. **DISPOSABLE PERSONAL INCOME** (personal income less taxes) rose by a strong 1.1% during April (+3.7% y/y) as the tax component of this number has decreased. **PERSONAL CONSUMPTION**, which represents approximately 70% of economic activity, fell by 0.1% during April, its second consecutive monthly decline. Over the past year Personal Consumption has fallen 1.5%. The combination of
rising personal income and declining consumption resulting in an annualized **SAVINGS RATE** of 5.7%, the highest since Q1-1995. The **PCE CHAIN PRICE INDEX**, one of the Fed's favorite measures of inflation, rose 0.1% during April (+0.4% y/y) as gasoline prices fell by 2.6%. **The core PCE Chain Price Index** rose 0.3% during April, by 0.2% during March, and by just 1.9% y/y.

U.S. CONSTRUCTION SPENDING rose 0.8% during April, this on the heels of a 0.4% rise during March, perhaps indicating at least a bottom is in for construction. Over the past year Construction Spending has fallen 10.7%. **Private Construction Spending** rose 1.4% during April, but has fallen 16.1% y/y while **Private Residential Construction Spending** rose 0.7% (-35.0% y/y) while **Private Nonresidential Construction Spending** rose 1.8% (2.0% y/y). Finally, **Public Construction** slipped 0.6% during April, but
has risen 3.3% y/y.

The Institute for Supply Management's **composite index of manufacturing sector activity** improved to a level of 42.8% during May from a level of 40.1% during April, a continuation of its modest bounce off twenty-eight year lows. Generally speaking, "a reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting." Helping the index recoup some of its recent losses was the bounce in **New Orders** (51.1 v. 47.2), the **Backlog of Orders** (48.0 v. 40.5), and **Production** (46.0 v. 40.4). Of note was the stagnation in **Employment** (34.3 v. 34.4) and the surge in the **Prices Paid Component** (43.5 v. 32.0).

Friday, May 29th

The Commerce Department reported that **FIRST QUARTER GROSS DOMESTIC PRODUCT** fell a **REVISED** 5.7%, less than the initially reported drop of 6.1%, and below the decline recorded during Q4-2008 and the worst consecutive quarter drop since 1958. GDP was weighed down by 2.3% (orig 2.8%) as inventories were liquidated, but helped by 1.6% (-4.3% Q4-2008) from stronger than anticipated personal consumption. This combination is somewhat encouraging as the potential for a pick-up in consumption along with lean inventories may spur economic growth. The consensus had been for Q1 GDP to fall by 5.5%. Over the past year, GDP has fallen by 2.5%. **Domestic Final Demand** fell at an annualized rate of 5.3%, slightly more than the 5.1% drop initially reported for Q1, but nonetheless still represents the deepest drop since the credit crunch of 1980. A component of personal consumption expenditures, **spending on motor vehicles** rose during the quarter (-18.7% y/y), the first increase in more than a year. Finally, **residential investment** declined at an annualized rate of 38.7% during the first quarter, worse than the 22.8% drop during the prior quarter. The **PCE chained GDP Price Index** rose at an annualized rate of 2.8% compared to the 0.5% rise during Q4-2008.

The University of Michigan reported that its **FINAL MAY READING OF CONSUMER SENTIMENT** rose to 68.7% from a

mid-month reading of 67.9% and from a final April reading of 65.1%. This recent level is one not seen since the beginning of the severest part of this recession, September 2008. The **current conditions index** jumped to 67.7% from a mid-May reading of 66.2%, but fell from a final April level of 68.3%. Finally, the **expectations index** inched up to 69.4% at the end of May from a level of 69.0% mid-May and from 63.1% at the end of April. **Inflation expectations** over the next twelve months rose to 3.2% from 2.9% while inflation expectations over the next five years rose to 2.9% from 2.8%.

Thursday, May 28th

ORDERS FOR DURABLE GOODS (those expected to last at least three years) rose 1.9% during April, reversing the revised 2.1% drop (orig. +1.7%) recorded during March. The consensus had been for Durable Goods to have risen by 0.4%. Orders were higher across the board including a 5.4% increase in orders for transportation equipment, and a 2.4% rise in motor vehicles and motor vehicle parts, its first increase since this past September. Over the past year, Orders for Durable Goods have fallen 24.4%. **Excluding transportation, orders for durable goods** jumped 0.8% during April, but have fallen 23.3% y/y.

The Commerce Department reported that **SALES OF NEW HOMES** rose by 1,000 or 0.3% during April to an annualized rate of 352,000 units from an downwardly revised 351,000 during February (orig. 356,000), perhaps finally signaling at least a bottom in the market. Sales of New Homes have fallen by 34.0% over the past year and by nearly 75% since the peak in July of 2005. The **length of time it would take to sell the current inventory of unsold homes** recovered to 10.1 months from 10.7 months one month prior. The **median price of a new home** rose 3.71% during April to $209,700 from $202,200 during March, but have fallen 14.9% over the past year.

Wednesday, May 27th

SALES OF EXISTING HOMES jumped 2.9% during April to an annualized rate of 4.680 million units from 4.550 million units during March. Sales of Existing Homes have fallen 7.1% over the past twelve months. The **inventory of unsold homes** rose to 10.2 months from 9.6 months during March. The **inventory of unsold single-family homes** also rose to 9.6 months during April while the **median existing-home sales price** rose 0.20% to $170,200 during April from $169,900 when compared to March, but have fallen 15.4% from $201,300 when compared to year ago levels.

Tuesday, May 26th

The **CONFERENCE BOARD'S CONSUMER CONFIDENCE INDEX** surged to a level of 54.9 during May from 40.8 during April, the highest since September. The consensus had been for the level to rise to 42.8. The **expectations component** rose to 72.3 during May from 51.0 during April while the **present situations index** rebounded to 28.9 from 25.5. Those surveyed that said that **jobs are "hard to get"** slipped to 44.7% from 47.9% while those claiming that **jobs are "plentiful"** rose to 5.7% from 4.5%. Those **expecting business conditions to improve** rose to 23.1%, its highest level since 2004.

Thursday, May 21st

The Conference Board reported that its **INDEX OF LEADING ECONOMIC INDICATORS** rose 1.0% during April, this after falling 0.2% during March. Seven of the ten components rose, including stock prices, improved consumer confidence and a normalizing yield curve.

Tuesday, May 19th

The Commerce Department reported that **HOUSING STARTS** fell by 67,000 or 12.76% to 458,000 from 525,000 during April, thus marking their lowest level on record. Over the past twelve months housing starts have fallen 54.2%. Of note is the fact that there must be approximately 1,000,000 housing starts per year just to replace those lost to natural causes, man-induced causes or by the growing U.S. population. Encouragingly, **Single-family** housing starts remained rose by 10,000 to 368,000 from 358,000 units during April, perhaps indicating a bottom is forming. Over the past year single-family housing starts have fallen 45.6% and have fallen eighty percent from its peak during January 2006. **Multi-family** housing starts plummeted 46.7% during April to a mere 90,000 from 167,000 one month prior. Over the past year they have fallen 72.3%. Finally, **BUILDING PERMITS**, a preview of future housing starts, fell 3.3% during April to 494,000 from 511,000 and have fallen by 50.2% y/y.

Friday, May 15th

Prices at the retail level as represented by the **CONSUMER PRICE INDEX** remained unchanged during April, this after falling 0.1% during March. Of note was the fact that over the past twelve months the CPI has fallen 0.7%, the largest y/y decline since 1955.

The **core CPI,** which is represented by the CPI excluding food and energy, rose 0.3% during April, this after rising 0.2% during

March and 1.9% y/y. Finally, the **chained CPI**, which measures inflation, but adjusts for shift in the mix of consumer purchases, rose
0.3% during April, 0.2% in March, but has fallen 1.1% y/y while the **core chained CPI** rose 0.2% during April, by 0.4% during March and by 1.4% y/y.

INDUSTRIAL PRODUCTION, a measure of strength of the manufacturing, factory and utilities sectors, dipped another 0.5% during April, this after falling by 1.7% during March, perhaps another signal that the trajectory of the decline in the economy is leveling. Over the past year Industrial Production has fallen by 12.5%, near the lows registered recently, lows that marked the steepest y/y decline since the late 1940's when the United States Factory Sector was winding down its production capacity increased for World War II. **CAPACITY UTILIZATION** fell to 69.1%, a record low for the series which dates back to 1966. Utilization in the factory sector dropped even harder to 65.7% from a near 80% peak back in 2007. The latest rate was a record low since WWII."

Thursday, May 14th

Prices at the wholesale level as measured by the **PRODUCER PRICE INDEX** rose 0.3% during April, reversing the 1.2% decline recorded during March. Over the past year the PPI has fallen 3.5%. Much of the rise in the PPI can be attributed to the 1.5% m/m jump in food prices and finished gasoline prices rose 2.6%. Excluding food and energy, the so -called **core PPI** was rose 0.1% during
April, was unchanged during March, and has risen by 3.4% y/y. Wholesale Prices at the **Intermediate Level** fell 0.5% during April (-10.4% y/y) while prices for **Crude Goods** (Raw Materials) rose by 3.0% during April, but have fallen by 39.9% y/y.

Wednesday, May 13th

RETAIL SALES slumped 0.4% during April, this after falling 1.3% during April and by 10.1% y/y. Of note was the 2.3% drop in gasoline service station sales, this despite the 4.6% rise in gasoline prices as well as the 1.7% decline in sales at furniture, electronic and appliance stores. **EXCLUDING AUTOMOBILES AND GASOLINE** Retail Sales fell 0.3% (-3.1% y/y) during April while **excluding automobiles**, Retail Sales fell 0.5% (-7.7% y/y).

U.S. Import Prices rose by 1.6% during April, the second consecutive monthly increase and the largest m/m increase in more than one year. Petroleum price increases was the main culprit, rising 15.4% during April, following the 7.9% gain one month prior. That said, petroleum prices have fallen by more than fifty percent y/y pushing import prices down 16.3% over that same time frame, a record since the series began back in September 1982. **Export prices** rose 0.6% in April, but have fallen 6.8% y/y. **Agricultural export prices** rose 3.6% during April, but have nonetheless fallen 17.6% y/y while **Non-Agricultural Export Prices** rose 0.3% in April, but have fallen 5.4% y/y.

BUSINESS INVENTORIES continue to be slashed, during March by 1.0% and over the past quarter by an annualized rate of 13.5%,
perhaps signaling that when the economy just stabilizes businesses will have to ramp up production. However, this has yet to occur, as the **INVENTORY-TO-SALES RATIO** rose to 1.44 months, the highest level since 2001.

Tuesday, May 12th

The **U.S. Trade Deficit** during March rose by 5.5% to $27.6 billion from a revised $26.1 billion recorded during February. The consensus estimate projected the deficit to climb to $29.0 billion. Accounting for some of the expansion of the trade deficit was the 17.8% rise in petroleum prices as crude oil rose to an average of $41.36/bbl. Overall, **Imports** declined 1.0% to $151.2 billion, the lowest level since September 2004 while **exports** fell 2.4% to $123.6 billion, the lowest level since August 2006. For the first quarter, the U.S. Trade Deficit shrunk, 47.2% to $359.7 billion from $681.1 billion at the same time last year. We agree with a statement contained within a research report from Nigel Gault, chief U.S. economist at HIS Global Insight, who noted that "the composition of exports suggest that the global economy is beginning to stabilize." However, we disagree with his next conclusion that "the steepest export declines are behind us. But given the weak state of overseas economies, we do not expect the U.S. recovery to be export led." In addition to stimulating domestic demand, we do think that the United States must focus on exports if we want to get our economy back on track.

Thursday, April 30th

The weakness in the economy helped to keep the widest look at labor costs, the **EMPLOYMENT COST INDEX**, in check over the past quarter. The ECI rose by 0.2% during the first quarter, the lowest increase in a decade while over the past year the index rose by just 2.0%, an all-time low for this series, which dates back to 1981. During the prior quarter the index had risen by 0.4% and by 2.5% y/y. The **wages & salaries component** (70% of ECI) rose by 0.2% (2.0% y/y) during the first quarter, this following the 0.5% gain during the fourth quarter. The **cost of benefits** rose by 0.2% over the past quarter and by 1.5% over the past twelve months. As noted by the Department of Labor, the ECI "measures quarterly changes in compensation costs, which include wages, salaries, and employer costs for employee benefits for civilian workers (non-farm private and State and local government)." *As of the this latest release, all components of the ECI have lagged the CPI over the past year, thus reducing real purchasing power.*

Economic & Investment Definitions

U.S. Savings

Low versus the historical norm. However, remember that this rate does not include Social Security, Pensions or Home Equity, some areas that Americans depend on for retirement income.

Strength of Dollar

A Weak Dollar increases exports while a Strong Dollar decreases exports. The reasoning is that a Weak dollar makes goods and services cheaper abroad while a strong dollar makes exports more expensive abroad. A strong dollar also helps keep inflation at bay by making imports cheaper, thereby helping keep wage and other inflationary pressures below the boiling point. It also provides foreign Treasury buyers two ways to profit – through bond price and dollar appreciation.

A weak dollar can be inflationary since it makes imports more expensive. This, in turn, gives domestic companies room to increase prices. Conversely, a strengthening dollar makes imports more competitive on a price basis.

Trade Deficit

An expanding trade deficit (imports exceeding exports) hurt the dollar because more dollars are held by foreigners. Some fear that foreigners will tire of holding declining dollars and sell them for other currencies putting added pressure on the greenback. In addition, foreign investors with U.S. assets are seeing those holdings decline as the dollar falls. As these investors sell these holdings and move to investments in other countries, it adds to selling pressure of the dollar.

Employment Cost Index

Compiled by the Bureau of Labor Statistics, is considered the most accurate measure of wages, salaries and benefits, measuring compensation per hour, including wages, salaries and the cost of benefits - from health insurance to Social Security
contributions. Wages and salaries account for approximately seventy percent of the employment cost index with benefits (health insurance and pension benefits) accounting for the rest.

Put/Call Ratio

The put-to-call ratio measures the sentiment of options traders. When the number of puts compared to calls is high, that means that many traders think the market will go down. When call volume outnumbers puts, many think the market is going to rise. Many use this as a contrarian indicator meaning that if options traders are too bullish, the market may actually fall.

Put option buyers bet that stocks will fall while call buyers bet that stocks will rise. Conversely put option sellers bet that stocks will rise while call sellers bet that stocks will fall. Options buyers and sellers are subject to expiration dates. Buyers of call options bet that a stock will be worth more than the price set by the option (the strike price), plus the price they pay
for
the option itself. Buyers of put options bet that the stock's price will drop below the price set by the option. When the number of puts compared to calls is high, that means that many traders think the market will go down. When call volume outnumbers puts, many think the market is going to rise. Many use this as a contrarian indicator meaning that
if options traders are too bullish, the market may actually fall.

Volatility Indices (^vix and ^vxn)

According to the Chicago Board of Options Exchange, the Volatility Index, "known by its ticker symbol "vix," was introduced by CBOE in 1993, and measures the volatility of the U.S. equity market. It provides investors with up-to-the-minute market estimates of expected volatility by using real-time OEX index option bid/ask quotes."

The CBOE NASDAQ Volatility Index, known by its ticker symbol "vxn," is the "benchmark of "tech stock" volatility based on the implied volatility of the NASDAQ 100 Index options. Calculated using the same methodology as the CBOE Market Volatility Index, the VXN is constructed so that, at any given time, it represents the implied volatility of a hypothetical at-

the-money NDX option with thirty calendar days to expiration."

Arms Index (^sti.n)

A contrarian index that indicates the bullishness or bearishness of investors. A reading below one indicates more action in rising stocks and a figure above one indicates more action in declining stocks. As a contrarian indicator, a reading above one is bullish for investors while a reading below one indicates bearishness.

Advancing Stocks / Declining Stocks + Advancing Volume / Declining Volume = The result is the Arms Index

Federal Reserve Data, Dates, Releases & Definitions

2009 Scheduled FOMC Meetings:

June 23-24; August 11-12; September 22-23; November 3-4; December 15-16, 2009.

Federal Funds Rate

The rate set by the Federal Reserve and that banks charge each other to borrow money overnight (the overnight inter-bank lending rate). The Fed Funds target rate currently is between 0.00% and 0.25%; the most recent rate change being a 75 to 100-basis point rate cut on December 16th, 2008. This was the tenth rate cut after the Fed Funds Rate peaked at 5.25% on June 29th, 2007.

Discount Rate

The interest rate charged to commercial banks and other depository institutions on loans they receive from the Federal Reserve. Currently at 0.50%. Most recent change was a 75-basis point rate cut on December 16th, 2008 at the regularly scheduled meeting. This past cut marked the ninth consecutive, the first coming on August 17th, 2007.
The Discount Rate peaked at 6.00% on June 29th, 2007.

Money Supply

The Federal Reserve controls the supply of money in the economy through open market operations with banks. If the Fed is buying U.S. Treasuries from banks, the banks receive cash, which they then can lend out. The Fed required banks to maintain reserves of ten percent of deposits. Therefore, for every dollar they receive by selling Treasuries to the Fed, $9.00 can be lent out to borrowers. Therefore, new dollars are entering the economy. The Fed therefore drains liquidity from the economy through selling U.S. Treasuries to member banks.

M1-A	currency plus demand deposits
M1-B	M1-A plus other checkable deposits
M2	M1-B plus overnight repos, money market funds, savings and time deposits less than $100,000,000
M3	M2 plus large time deposits and term repos
M4	M3 plus all other liquid assets

Statement by The Federal Reserve following the April 28th-29th, 2009 Meeting

Information received since the Federal Open Market Committee met in March indicates that the economy has continued to contract, though the pace of contraction appears to be somewhat slower. Household spending has shown signs of stabilizing but remains constrained by ongoing job losses, lower housing wealth, and tight credit. Weak sales prospects and difficulties in obtaining credit have led businesses to cut back on inventories, fixed investment, and staffing. Although the economic outlook has improved modestly since the March meeting, partly reflecting some easing of financial market conditions, economic activity is likely to remain weak for a time. Nonetheless, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability.

In light of increasing economic slack here and abroad, the Committee expects that inflation will remain subdued. Moreover, the Committee sees some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve will buy up to $300 billion of Treasury securities by autumn. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is facilitating the extension of credit to households and businesses and supporting the functioning of financial markets through a range of liquidity programs. The Committee will continue to carefully monitor the size and composition of the Federal Reserve's balance sheet in light of financial and economic developments.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Donald L. Kohn; Jeffrey M. Lacker; Dennis P. Lockhart; Daniel K. Tarullo; Kevin M. Warsh; and Janet L. Yellen.

Statement by The Federal Reserve following the March 16th-17th, 2009 Meeting

Information received since the Federal Open Market Committee met in January indicates that the economy continues to contract. Job losses, declining equity and housing wealth, and tight credit conditions have weighed on consumer sentiment and spending. Weaker sales prospects and difficulties in obtaining credit have led businesses to cut back on inventories and fixed investment. U.S. exports have slumped as a number of major trading partners have also fallen into recession. Although the near-term economic outlook is weak, the Committee anticipates that policy actions to stabilize financial markets and institutions, together with fiscal and monetary stimulus, will contribute to a gradual resumption of sustainable economic growth.

In light of increasing economic slack here and abroad, the Committee expects that inflation will remain subdued. Moreover, the Committee sees some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide greater support to mortgage lending and housing markets, the Committee decided today to increase the size of the Federal Reserve's balance sheet further by purchasing up to an additional $750 billion of agency mortgage-backed securities, bringing its total purchases of these securities to up to $1.25 trillion this year, and to increase its purchases of agency debt this year by up to $100 billion to a total of up to $200 billion. Moreover, to help improve conditions in private credit markets, the Committee decided to purchase up to $300 billion of longer-term Treasury securities over the next six months. The Federal Reserve has launched the Term Asset-Backed Securities Loan Facility to facilitate the extension of credit to households and small businesses and anticipates that the range of eligible collateral for this facility is likely to be expanded to include other financial assets. The Committee will continue to carefully monitor the size and composition of the Federal Reserve's balance sheet in light of evolving financial and economic developments.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Donald L. Kohn; Jeffrey M. Lacker; Dennis P. Lockhart; Daniel K. Tarullo; Kevin M. Warsh; and Janet L. Yellen.

Statement by The Federal Reserve following the December 15th-16th, 2008 Meeting

The Federal Open Market Committee decided today to establish a target range for the federal funds rate of 0 to 1/4 percent.

Since the Committee's last meeting, labor market conditions have deteriorated, and the available data indicate that consumer spending, business investment, and industrial production have declined. Financial markets remain quite strained and credit conditions tight. Overall, the outlook for economic activity has weakened further.

Meanwhile, inflationary pressures have diminished appreciably. In light of the declines in the prices of energy and other commodities and the weaker prospects for economic activity, the Committee expects inflation to moderate further in coming quarters.

The Federal Reserve will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. In particular, the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time.

The focus of the Committee's policy going forward will be to support the functioning of financial markets and stimulate the economy through open market operations and other measures that sustain the size of the Federal Reserve's balance sheet at a high level. As previously announced, over the next few quarters the Federal Reserve will purchase large quantities of agency debt and mortgage-

backed securities to provide support to the mortgage and housing markets, and it stands ready to expand its purchases of agency debt and mortgage-backed securities as conditions warrant. The Committee is also evaluating the potential benefits of purchasing longer-term Treasury securities. Early next year, the Federal Reserve will also implement the Term Asset-Backed Securities Loan Facility to facilitate the extension of credit to households and small businesses. The Federal Reserve will continue to consider ways of using its balance sheet to further support credit markets and economic activity.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Christine M. Cumming; Elizabeth A. Duke; Richard W. Fisher; Donald L. Kohn; Randall S. Kroszner; Sandra Pianalto; Charles I. Plosser; Gary H. Stern; and Kevin M. Warsh.

In a related action, the Board of Governors unanimously approved a 75-basis-point decrease in the discount rate to 1/2 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Minneapolis, and San Francisco. The Board also established interest rates on required and excess reserve balances of ¼ percent.

Statement by The Federal Reserve following the October 29th, 2008 Meeting

The Federal Open Market Committee decided today to lower its target for the federal funds rate 50 basis points to 1 percent.

The pace of economic activity appears to have slowed markedly, owing importantly to a decline in consumer expenditures. Business equipment spending and industrial production have weakened in recent months, and slowing economic activity in many foreign economies is damping the prospects for U.S. exports. Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit.

In light of the declines in the prices of energy and other commodities and the weaker prospects for economic activity, the Committee expects inflation to moderate in coming quarters to levels consistent with price stability.

Recent policy actions, including today's rate reduction, coordinated interest rate cuts by central banks, extraordinary liquidity measures, and official steps to strengthen financial systems, should help over time to improve credit conditions and promote a return to moderate economic growth. Nevertheless, downside risks to growth remain. The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Elizabeth A. Duke; Richard W. Fisher; Donald L. Kohn; Randall S. Kroszner; Sandra Pianalto; Charles I. Plosser; Gary H. Stern; and Kevin M. Warsh.

In a related action, the Board of Governors unanimously approved a 50-basis-point decrease in the discount rate to 1-1/4 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Cleveland, and San Francisco.

Statement by The Federal Reserve following the September 16th, 2008 Meeting

Joint Statement by Central Banks

Throughout the current financial crisis, central banks have engaged in continuous close consultation and have cooperated in unprecedented joint actions such as the provision of liquidity to reduce strains in financial markets.

Inflationary pressures have started to moderate in a number of countries, partly reflecting a marked decline in energy and other commodity prices. Inflation expectations are diminishing and remain anchored to price stability. The recent intensification of the financial crisis has augmented the downside risks to growth and thus has diminished further the upside risks to price stability.

Some easing of global monetary conditions is therefore warranted. Accordingly, the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, Sveriges Riksbank, and the Swiss National Bank are today announcing reductions in policy interest rates. The Bank of Japan expresses its strong support of these policy actions.

Federal Reserve Actions

The Federal Open Market Committee has decided to lower its target for the federal funds rate 50 basis points to 1-1/2 percent. The Committee took this action in light of evidence pointing to a weakening of economic activity and a reduction in inflationary pressures.

Incoming economic data suggest that the pace of economic activity has slowed markedly in recent months. Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of

households and businesses to obtain credit. Inflation has been high, but the Committee believes that the decline in energy and other commodity prices and the weaker prospects for economic activity have reduced the upside risks to inflation.

The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Elizabeth A. Duke; Richard W. Fisher; Donald L. Kohn; Randall S. Kroszner; Sandra Pianalto; Charles I. Plosser; Gary H. Stern; and Kevin M. Warsh.

In a related action, the Board of Governors unanimously approved a 50-basis-point decrease in the discount rate to 1-3/4 percent. In taking this action, the Board approved the request submitted by the Board of Directors of the Federal Reserve Bank of Boston.

Statement by The Federal Reserve following the September 16th, 2008 Meeting

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.

Strains in financial markets have increased significantly and labor markets have weakened further. Economic growth appears to have slowed recently, partly reflecting a softening of household spending. Tight credit conditions, the ongoing housing contraction, and some slowing in export growth are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.

Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain.

The downside risks to growth and the upside risks to inflation are both of significant concern to the Committee. The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability.

Statement by The Federal Reserve following the June25th, 2008 Meeting

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.

Recent information indicates that overall economic activity continues to expand, partly reflecting some firming in household spending. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and the rise in energy prices are likely to weigh on economic growth over the next few quarters.

The Committee expects inflation to moderate later this year and next year. However, in light of the continued increases in the prices of energy and some other commodities and the elevated state of some indicators of inflation expectations, uncertainty about the inflation outlook remains high.

The substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time. Although downside risks to growth remain, they appear to have diminished somewhat, and the upside risks to inflation and inflation expectations have increased. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; Sandra Pianalto; Charles I. Plosser; Gary H. Stern; and Kevin M. Warsh. Voting against was Richard W. Fisher, who preferred an increase in the target for the federal funds rate at this meeting.

Limits, Limitations, Data & Dates

Social Security Data (www.ssa.gov/pressoffice/colafacts2004.htm)

New York Tax Freedom Day for 2008	May 5th
2009 Social Security Cost of Living Adjustment (COLA)	5.8%
Average Monthly Benefit	$1,153. (+$63.)
2008 Social Security Wage Base	102,700. ($97,500.)
Social Security Recipients Under Age 65 in 2008 Can Earn	$13,560. ($12,960.)
Social Security Recipients At Full S.S. Retirement Age	Unlimited

Re-characterization of Roth IRA back to Traditional IRA

The Internal Revenue Service gives you up to October 15th of the year following the year of the Roth conversion to re-characterize that conversion. So for 2005 Roth conversions, the re-characterization deadline is October 15, 2003. The re-characterization treats the funds as if the conversion had never occurred. Should you re-characterize, don't forget to file an amended return and claim a refund for any tax paid on the conversion.

Retirement Savings Facts

2007 401(k) limits are $15,500 for individuals under fifty years of age.
2007 401(k) limits for over age fifty are an additional $5,000 as a catch-up provision.

2007 IRA limits are $4,000 for individuals under fifty years of age.
2007 IRA limits are $5,000 for individuals over fifty years of age.

2007 Roth IRA contributions phased out for Joint Filers w/ AGI between $156,000 and $166,000.
2007 Roth IRA contributions phased out for Individual Filers w/ AGI between $99,000 and $114,000.

Estate Tax Exclusion Limits

2007 & 2008 Federal Estate Tax Exclusion will remain at $2 million.
2009 Federal Estate Tax Exclusion increases to $3.5 million.
2010 Federal Estate Tax Exclusion decreases to $0.
2011 Federal Estate Tax Exclusion increases to $1 million.

CORPORATE NEWS & EARNINGS REPORTS
(Please note that all opinions are as of the date indicated and are not meant to e a specific recommendation on your particular situation, but just a general opinion on the appreciation potential of the stock at its current price.)

Common Stock & Equity ETF Portfolio Holdings**
Ranked by Market Value as of May 31st, 2009.

Percent of Common Stock	*Company Name*	*Symbol*	*As of May 31st, 2009*	*As of April 30th, 2009*	*As of Mar 31st, 2009*
5.44%	Hewlett Packard	HPQ	1	1	1
4.76%	Apple Computer	AAPL	2	3	3
4.57%	JP Morgan Chase	JPM	3	4	5
4.42%	General Electric	GE	4	5	6
4.01%	Exxon Mobil	XOM	5	2	2
3.87%	McDonald's Corporation	MCD	6	6	4
2.75%	Nike, Inc.	NKE	7	8	10
2.70%	MasterCard, Inc.	MA	8	7	8
2.64%	Pepsico, Inc.	PEP	9	9	7
2.52%	Conoco Phillips	COP	10	54	61
2.45%	Johnson & Johnson	JNJ	11	10	9
2.27%	S&P 500 ADR's	SPY	12	12	13
2.20%	Research In Motion	RIMM	13	14	20
2.15%	Intel Corp.	INTC	14	11	12
1.97%	Cisco Systems, Inc.	CSCO	15	13	14
1.70%	iShares DJ Select Divd Index	DVY	16	15	16
1.46%	Emerson Electric Co.	EMR	17	17	18
1.45%	Pfizer, Inc.	PFE	18	20	17
1.45%	Foster Wheeler	FWLT	19	24	32
1.36%	Target Corporation	TGT	20	18	22
1.35%	Celgene Corp.	CELG	21	19	19
1.32%	Suncor Energy	SU	22	42	41
1.21%	First Niagara Financial	FNFG	23	21	25
1.17%	Oracle Corporation	ORCL	24	22	24
1.14%	Sasol, Ltd. ADR	SSL	25	31	29
1.12%	Baxter International	BAX	26	23	21

0.95%	Gilead Sciences, Inc.	GILD	32	25	11
0.71%	Verizon Communications	VZ	41	16	15

Portfolio Concentration: Top 25 holdings represent 62.33% of the common stock portfolio, as of May 31st, 2009.

Largest Mutual Fund Holdings as of May 31st, 2009.		
Domestic Equity Funds	***International Equity Funds***	***Hybrid/Fixed Income/ Muni Fund/ETF***
AF Capital Income Builder	William Blair International Growth	Payden GNMA Fund
Schwab 1000 Select Fund	BLDRS Emerging Markets	Loomis Sayles Bond Fund
Baron Asset Fund	Tweedy Browne Global Value	iShares Lehman Bros TIPS
Parnassus Equity Income Fund	Janus Overseas	Vanguard GNMA
T Rowe Price Growth Stock Fund	BLDRS Asia 50 ADR Index	Vanguard Inflation Protected Securities

Common Stock & Equity ETF Portfolio Holdings** Ranked by Share Balance as of May 31st, 2009							
Notes & Stock Splits; Avg. Cost Per Share			***Company Name***	***Symbol***	***As of May 31st, 2009***	***As of April 30th, 2009***	***As of Mar 31st, 2009***
$23.69	1	1	General Electric	GE	122,201	111,256	103,947
$42.69	2	2	Hewlett Packard Co.	HPQ	59,016	58,956	58,656
$19.15	3	3	Intel Corporation	INTC	51,023	51,258	47,523
$39.96	4	4	JP Morgan Chase	JPM	46,134	45,383	44,873
$23.47	5	5	Cisco Systems	CSCO	39,758	38,958	38,728
$10.44	6	7	First Niagara Financial	FNFG	35,601	35,089	32,473
$18.88	7	6	Pfizer, Inc.	PFE	35,576	35,576	35,581
$23.70	8	8	Bank of America	BAC	28,928	28,928	
$31.07	9	9	Citigroup	C	27,903	28,769	29,174
$11.48	10	24	Dell Computer	DELL	25,880	16,600	1,000
$39.30	11	10	McDonalds Corp.	MCD	24,467	24,392	24,242
$23.11	12	12	Corning, Inc.	GLW	23,370	23,250	22,925
$19.49	13	13	Oracle Corporation	ORCL	22,174	21,519	20,584
$36.41	14	10	Exxon Mobil	XOM	21,542	26,577	26,997
$44.90	15	72	Conoco Phillips	COP	20,510	4,195	2,845
$21.87	16	17	Foster Wheeler	FWLT	20,310	18,250	16,680
$15.71	17	23	SPDR Select Tech	XLK	20,245	16,670	14,555
$63.12	18	16	Pepsico, Inc.	PEP	18,894	18,589	18,443
$59.80	19	18	Nike, Inc.	NKE	17,986	17,986	17,330
$19.22	20	15	SPDR Select Financial	XLF	17,986	19,391	19,080
$28.09	21	20	Microsoft Corp.	MSFT	17,927	17,837	17,607
$49.35	22	19	iShares DJ Select Divd Index	DVY	17,682	17,907	17,356
$9.32	23	21	TrustCo	TRST	17,148	17,148	17,023
$41.78	24	22	Emerson Electric	EMR	16,940	16,715	15,550
$55.99	25	25	Johnson & Johnson	JNJ	16,574	16,574	16,614
$31.75	43	14	Verizon Communications	VZ	9,067	19,525	18,993

**Please note that all data listed on this and the preceding page are for general information purposes only and are not meant to be specific recommendations. Any change in ranking by either market value or share balance are not meant to conclude that Fagan Associates recommends a purchase or sale of the referenced security. Please consult with your financial advisor prior to making any changes to your portfolio.

Market Commentary

"Try The Irrational"
The Record, 03.29.2009

As human beings, most of us are rational. We don't run in front of moving cars or put our hands on hot stovetops. Quite often becoming a successful investor requires that you take a seemingly irrational step. The more rational you are the less likely you are to buy low and sell high and the less likely you are to have faith that it's not different time. It is for this reason that, after talking to many investors, clients and non-clients alike, that we thought within the body of this column we would, in no particular order, present some thoughts and questions for the readers regarding investing.

If the entire objective of investing is to buy low and sell high, why then when investors have the chance to actually buy low and sell high very few do?

If it has never been "different this time" before regarding the stock market, why then do investors think it is different this time and investing will never again be profitable? If you do think it is different this time and it is not then you may also be making a life changing decision.

At the top of a bull market there are few pessimists. At the bottom of a bear market there are few optimists.

From top to bottom the S&P 500 dropped more than fifty-six percent. Sounds to us like it priced in a pretty severe recession.

Sometimes you can do everything right and still not be rewarded. That doesn't mean you aren't making the right choices. We recognize that stocks have gone nowhere in more than a decade. We recognize that this is very frustrating. We recognize that you are feeling somewhat insecure. However, whenever we think of this we are reminded of the author of "The Complete Book of Running," James Fixx, a picture of health who was very instrumental in converting millions of Americans during the 1970's, including ourselves, into avid runners. Unfortunately, Mr. Fixx died at the age of fifty-two from a heart condition while running in Vermont. Is the moral of this story that Mr. Fixx should have not exercised and not eaten healthy or is it that sometimes things just don't work out as planned? We would suggest the latter.

We often get the claim that "I'm going to get back into the market once the economy looks better." To that we respond that the stock market is a discounting mechanism and it therefore bottoms approximately six to nine months ahead of economic turns for better and for worse.

This is the worst economic downturn since the Great Depression. Pure rhetoric. Who says? During the 1970's the national unemployment rate peaked above nine percent; inflation was above ten percent and mortgage rates were above fifteen percent. Despite the fact that things may get worse, as of today unemployment is just over eight percent; inflation is near two percent and mortgage rates are at a forty year low, 4.85%.

Gold is a hedge against inflation and not an asset class.

At the current time, investors are experiencing the worst ten-year stretch since the ten years ending 1938. Sounds like investors over

the next ten years might be amply rewarded for their pain they have endured over the prior ten.

At the bottom of the bear market most investors will be severely under allocated to stocks.

This is just some food for thought. We all have different goals and objectives. We all have different sources of income leading up to and in retirement so that we must all plan accordingly. However, over the past century, for the average American the surest way to achieve wealth has been through investing in the stock market. Oh, we forgot. It's different this time.

"Perform Your Own Stress Test"
The Record, 03.01.2009

Beginning this past Wednesday and continuing through the end of April, U.S. Federal Bank and Thrift Supervisors will be conducting an extensive analysis of banking institutions with assets greater than $100 billion to determine if such banks have sufficient capital buffers to withstand "the impact of an economic environment that is more challenging than is currently anticipated." According to this agency, this assessment will test financial institutions under a "baseline scenario [that] reflects a consensus expectation among private forecasters and the more adverse scenario [that] reflects a deeper and longer recession." The more adverse scenario includes unemployment rates above ten percent and a housing market that continues to decline.

With this in mind, we believe that investors should conduct their own "stress test" to determine whether or not the current allocation of their assets can withstand a stock market that continues to decline. The question that this stress test should answer is "if the stock market declines another twenty percent from its present level of approximately 7,270 on the Dow Jones Industrial Average and remains at this subdued level of approximately 5,800, will my standard of living be impacted, and, if so, to what extent?"

When performing the above referenced stress test, be careful to include all of your assets that can produce income such as a Defined Benefit Pension Plan, Social Security, and the values of your 401(k), 403(b) or other Employer-Sponsored Defined Contribution Plan. If you are already retired, include a conservative value of your home for a potential reverse mortgage. On the liability side, don't forget your daily living expenses as well as entertainment costs and gifts in addition to housing costs, insurance costs, energy costs and the cost of your automobile.

If the outcome of your own stress test indicates that your life will not change, then ignore the noise coming out of the financial markets and focus on what is really important, your life. If, however, a decline to this extent would impact your standard (quality) of life, then perhaps you should make some changes to your investment portfolio. Or, if you are retired, perhaps what you will leave to your heirs might need to be adjusted. If such an unanticipated "adverse scenario" becomes a reality, tough choices, like this, might be necessary to preserve your standard of living.

The probability of such a scenario is relatively low, less than twenty-five percent, but if you were to conduct such a stress test, it may allow you to invest more appropriately for your needs without the mental highs and lows that are part and parcel of a bear market.

Finally, if you pass your own stress test, be patient and let time heal our economic woes. We realize that this may be difficult because we live in a media-saturated country, a country where instant gratification is the rule rather than the exception, in a country where solutions such as liposuction and diet pills garner attention rather than diet and exercise. Once again, we ask that should you pass your own stress test, be patient and tune out the daily noise.

"Goldman Sachs Is Right on Target"

The Record, 01.14.2008

This past Wednesday, in a note to clients, economists at renowned investment bank Goldman Sachs, the brokerage firm that was brilliantly shorting and therefore profiting from fixed-income products that were related to the subprime mortgage mess, predicted that the U.S. economy would enter into a modest recession during 2008. We couldn't agree more.

Most economists define a recession as two consecutive quarters of negative growth in Gross Domestic Product (GDP) which, also by definition, measures the expansion of contraction of the economy of a nation. Goldman Sachs predicts that "the recession is likely to last two to three quarters and should be relatively mild by historical standards, with a cumulative decline in GDP of only about a half percent," this according to Goldman Sachs economists' Jan Hatzius and Ed McKelvey. For all of 2008, Goldman Sachs expects GDP to rise by 0.8%. According to the two economists, keeping the recession "relatively mild" is the assumption that the Open Market Committee of the Federal Reserve, the body that determines the direction of short-term interest rates, will aggressively lower rates in order to provide liquidity to the credit markets and ease the credit crunch. Ultimately, the impact of this mild recession will be an increase in the unemployment rate from its current level of 5.0% to 6.25% by the end of this calendar year.

All of the above loudly begs the question, **"fine, but what does this mean for my investments?"** Simply put, we believe that the during the fourth quarter of 2007 the U.S. economy entered a period of slow to somewhat stagnant economic growth that will most likely last throughout the majority of 2008. Whether this is the slight majority or vast majority of 2008 has everything to do with just how aggressive the Fed is when it responds to interest rates. Thus far, we believe that the Fed has not acted aggressively enough when regarding interest rates and that the downturn in the economy, if one thinks of it as a moving car or other vehicle, has maintained its distance over the Fed. The Fed must do something to close this gap and to eventually move ahead of the economic downturn. It is with the efforts of the Fed, perhaps along with fiscal (tax) policy relief coming from congress and the Bush Administration that the economy will eventually turn for the better.

The Chairman of the Federal Reserve, Ben Bernanke, in a recent luncheon speech in Washington, D.C., stated that the Fed stands "ready to take substantive additional action as needed to support growth and to provide adequate insurance against downside risks." The jury is still out as to what Chairman Bernanke defines as "substantive" when it comes to the action required to stem the economic downturn that is facing America.

To determine where the stock market may go one must look back at historical data. We did just that and found that during economic downturns when the Federal Reserve has lowered interest rates at three consecutive meetings, the stock market has responded favorably as measured by a time frame of one year. In fact, there have been thirteen times in which the Fed has cut interest rates at three consecutive meetings and the stock market has been higher one year later on every occasion, save one. That was during the early 1930's when the United States was on the verge of the Great Depression. Therefore, if you believe as we do, that we are not entering into an era of depression, stock investors have a golden opportunity to add to their holdings and reap capital gains one year hence. Unfortunately, during times like this it is very uncomfortable to invest in stocks, but we cannot see anything other type of investment that we would rather be in than equities. That said, maintain a disciplined investment approach and always have a plan for selling a position after making the purchase.

"Secular vs. Cyclical Bear Market"
The Record, 05.11.2003

There is a great debate raging in the investment community over whether we have entered a **secular** bear market or have we, since early 2000, merely been correcting the excesses of the late 1990's in a **cyclical** bear market within a bull market that began in 1982. For the purposes of this article, secular can be defined as the general trend (or climate) that lasts for a long period of time. Typically, the secular pattern is dotted with abnormalities that run counter to the overriding trend, but are relatively short in nature. For example, the Dow Jones Industrial Average rose from a closing level of 776.90 on August 12, 1982 to 11,723.00 on January 14, 2000 for a gain of more than 1400%! However, within this long-term or secular bull market there were four cyclical or short-term bear markets including one that lasted approximately three months in 1987; one that lasted approximately four months during 1990; one that lasted ten months during 1994; and one that lasted a mere two months during 1998.

Prior to the beginning of **this bear market that has now lasted nearly forty months**, the longest bear market since the beginning of the secular bull that dates back to 1982, was the bear of 1994 that lasted ten months. *Keep in mind that it is not only the depth of a bear market, but the length of one that determines an investor's appetite or lack of appetite for stocks!*

Having analyzed a secular bull market, one that perhaps concluded in early 2000, let us now turn our attention to the most recent secular bear market, one that peaked on February 9, 1966 at Dow 995.20 and one that, fifteen years later, on February 9, 1981 closed at Dow 947.20, obviously below the prior high set one and one-half decades ago! It is interesting to note that within the secular bear, there were no less than four cyclical bull markets; one that lasted twenty-six months, from October 7, 1966 to December 3, 1968 when the Dow rose from 744.30 to 985.20 representing a gain of 32.37%; one that lasted more than thirty-one months, from May 26, 1970 to January 11, 1973 when the Dow rose from 631.20 to 1051.70 representing a gain of 66.62%; a cyclical bull that lasted twenty-two months, from December 6, 1974 to September 21, 1976 when the Dow rose from 577.60 to 1014.80 representing a gain of 75.69%; and a move that lasted nearly three years, from March 6, 1978 to February 9, 1981 when the Dow rose from 742.70 to 947.20 representing a gain of 27.53%.

It is safe to conclude from the above paragraph that it is possible to make money in a flat, secular bear market. (Please note that the data utilized above does not include dividends.) The heavy nature of this article hopefully reflects the importance of the following question and the impact that this question will have upon your financial future. Is this a long-term bear or a pause amidst the bull that began in 1982?

Despite the fact that it is too early to tell whether this is a cyclical bear market or a secular bear market, it is important to note that regardless of which type of market we are in, the Dow has risen more than 17.70% off its recent lows; the S&P 500 close to 20% while the NASDAQ Composite has risen more than thirty-five percent indicating a bullish pattern. It will be interesting to see how the bears react if the Dow rises more than twenty percent from its closing low of 7286.27 set on October 9, 2002. A close above twenty percent is the definition of a bull market trend. This will happen if the Dow closes at or above 8743.52 and will put the pressure on the bears.

Despite the question of whether we may be about to embark on a new secular bull market or a cyclical bull within a secular bear, investors should have upside and downside targets for their stocks and utilize stop/loss provisions to protect their capital. Stay tuned.

"China, A Country to Reckon With"
The Record, 05.02.2004

As investors receive and then open their April statements sometime later next week or early the following week and see the slight decline in their portfolio values, it will probably occur to only a few of them that the Chinese economy may be to blame.

Late this past week, in an effort to slow down an economy that had grown at an annualized rate of 9.7% during the first quarter of 2004, Chinese economic officials told banks to stop lending to certain industries, including the aluminum, cement, real estate and steel industries, fearing that their economy was in danger of overheating. Furthermore, the People's Bank of China has decided to raise interest rates for the first time since 1955 also indicative of their intention to slow the economy to a more sustainable pace.

Given the fact that many, including us, attribute a good portion of the run-up in commodity prices to soaring demand from China, we thought it would be a good idea to familiarize readers of our column to some of the demographics and demand emanating from the Chinese.

China is the most populous country in the world with over 1.29 billion people inhabiting an area slightly smaller than Canada, but larger than the United States. This represents approximately one-fifth of the global population. According to the State Statistical Bureau for the People's Republic of China and noted in a Prudential Research report, "the percent of the population living in rural areas fell to 61% last year, down from 79% in 1982 and 88% in 1952. This trend toward urbanization is very similar to the experience
in the United States during the 1800s and through the 1970s. In 1800, 94% of the U.S. population resided in rural areas. By 1900, this
percentage declined to 60%. It fell to a record low of 26% in the 1970s." The result is an average annual increase of urban population
of approximately 20 million people!

China's main source of energy comes from coal, which they mine themselves. China consumes approximately 5.4 million barrels of oil
per day, a number which should increase to approximately 7 million barrels per day by 2010. By contrast, the United States consumes over twenty million barrels per day. China now imports approximately 30% of its oil consumption.

There are ten million cars, trucks, and buses in all of China. This compares with 134 million registered cars, trucks, and buses in the United States.

China consumes approximately 50% of the world's cement, and 36% of its annual production of steel.

The average hourly earnings of a Chinese manufacturing worker is $0.61 compared with the average hourly earnings of a United States
worker of $16.14! Despite being the largest country in terms of population, there are more than one hundred countries in the world with higher per capita incomes!

Agriculturally, China's annual grain output is approximately 500 million tons, not enough to feed the billion-plus people. Therefore, China is a net importer of grain. With the United States, this amounted to over 800 million bushels of soybeans during 2003. All this

with only 7% of the world's farmable land.

With China's population increasing by approximately ten million people per year and with average hourly earnings well under $1.00, the economic potential is mind boggling. However, thinking back to the trials and struggles of the United States over the past two centuries and one realizes that this potential will not be easily realized. Investors in China must be patient. However, we believe this patience will be well-reward over the next three to five years.