

Recap Of The Financial Markets

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Week Ended October 23rd, 2009.

Stocks ended the week fractionally lower, this despite solid earnings reports from Apple, Caterpillar, Amazon and Microsoft. The Dow seems attracted to 10,000 on either side of this number like a moth to a lantern. We believe this will most likely continue for awhile longer and then eventually break out to the upside as earnings growth, at least for this quarter, appear more important than revenue growth. As we have noted time and time again, perhaps boring you to death, but thus far very accurate, the move off the lows has been a recovery of the panic low and once digested, we believe stocks can move higher. However, unlike the last move which included almost all securities, this one will include only those that can report earnings and revenue growth. As noted above, we remain steadfast in our belief that after a more than fifty percent run-up in all of the major averages with not even one correction of more than ten percent, a correction is rational, necessary and overdue. However, we believe it will be no more than ten to fifteen percent and that after a period of consolidation, should it come, this rally still has legs and will use pullbacks near ten percent to establish or add to equity positions. We have stated in writing and verbally time and time again that we believe Dow 9,000 to 10,000 was a recovery from the panic low and that we'll have to earn gains from here. With this in mind, **we continue to encourage equity investors to add to positions on fear and weakness rather than to sell on strength. We also encourage income oriented investors to look at corporate, municipal and agency and foreign government issues.**

Index	Weekly Change	Closing Value	% Change Prior Week	Year-to-Date % Change	Trailing 12 Mo. % Change
Dow Jones Ind. Avg.	-23.73	9972.18	-0.24%	+13.63%	+19.01%
S&P 500	-8.08	1079.60	-0.74%	+19.52%	+23.13%
NASDAQ Comp.	-2.33	2154.47	-0.11%	+36.62%	+38.62%
DJ Wilshire 5000	-101.89	11117.49	-0.91%	+22.34%	+26.25%
Russell 2000	-15.32	600.86	-2.49%	+20.30%	+27.54%
Dow Utilities	-4.60	377.43	-1.20%	+1.80%	+6.71%
Dow Transports	-218.20	3804.95	-5.42%	+7.57%	+10.34%

Index	Closing Record High	Date of Closing Record High	% from Prior Record High	March 9 th , 2009 Closing Low	% From Closing Low Mar 9, 2009
Dow Jones Ind. Avg.	14164.53	9-Oct-2007	29.60%	6547.05	52.32%
S&P 500	1565.15	9-Oct-2007	31.02%	676.53	59.58%
NASDAQ Comp	5048.62	10-Mar-2000	57.33%	1268.24	69.88%
DJ Wilshire 5000	15806.69	9-Oct-2007	29.67%	6858.43	62.10%
Russell 2000	855.70	13-July-2007	29.78%	343.26	75.05%
Dow Utilities	552.74	10-Dec-2007	31.72%	290.68	29.84%
Dow Transports	5446.49	19-July-2007	30.14%	2146.89	77.23%

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 9 th Closing Low	Post Bear Market Closing High	% from Post Bear Market Closing High
Dow Jones Ind. Avg.	14164.53	29.60%	53.78%	10092.19	1.19%
S&P 500	1565.15	31.02%	56.78%	1097.91	1.67%
NASDAQ Comp.	2859.12	24.65%	55.64%	2176.32	1.00%
DJ Wilshire 5000	15806.69	29.67%	56.61%	11326.11	1.84%
Russell 2000	855.70	29.78%	59.89%	622.34	3.45%
Dow Utilities	552.74	31.72%	47.41%	384.23	1.77%
Dow Transports	5446.49	30.14%	60.58%	4045.11	5.94%

MARKET INTERNALS							
	Friday	Monday	Tuesday	Wednesday	Thursday	Friday	
Date	Oct 16 th	Oct 19 th	Oct 20 th	Oct 21 st	Oct 22 nd	Oct 23 rd	
<i>Dow Change</i>	-67.03	+96.29	-50.71	-92.12	+131.95	-109.13	
<i>NYSE Volume</i>	1.386 b	1.081 b	1.237 b	1.406 b	1.315 b	1.277 b	
<i>Mkt Vol Index (^vix)</i>	21.43	21.49	20.90	22.22	20.69	22.27	
<i>NASDAQ Close</i>	2156.80	2176.32	2163.47	2150.73	2165.29	2154.47	
<i>NASDAQ Change</i>	-16.49	+19.52	-12.85	-12.74	+14.56	-10.82	
<i>NASDAQ Volume</i>	2.226 b	2.000 b	2.159 b	2.607 b	2.297 b	2.478 b	
<i>NASDAQ Vol Index (^vxn)</i>	22.22	22.11	21.62	23.14	21.58	22.62	
<i>S&P 500 Close</i>	1087.68	1097.91	1091.06	1081.40	1092.91	1079.60	
<i>S&P 500 Change</i>	-8.88	+10.23	-6.85	-9.66	+11.51	-13.31	
<i>Russell 2000 Close</i>	616.18	622.34	613.41	605.11	613.38	600.86	
<i>Russell 2000 Change</i>	-7.16	+6.16	-8.93	-8.30	+8.27	-12.52	
<i>Wilshire 5000 Close</i>	11219.38	11326.11	11245.36	11142.14	11259.80	11117.49	
<i>Wilshire 5000 Change</i>	-95.01	+106.73	-80.75	-103.22	+117.66	-142.31	
<i>Dow High (a)</i>	10061.36	10117.96	10098.39	10119.47	10105.19	10109.57	
<i>Dow Low (a)</i>	9939.91	9995.15	9992.81	9943.76	9916.78	9932.50	
<i>Dow at 10:00 a.m.</i>	9967.72	10004.90	10072.24	10074.13	9945.73	10074.65	
<i>Dow 1 Hour Before Close</i>	9994.70	10107.08	10031.20	10077.98	10076.55	9959.56	
<i>Dow Close</i>	9995.91	10092.19	10041.48	9949.36	10081.31	9972.18	
<i>Variation</i>	121.45	122.81	105.58	175.71	188.41	177.07	
<i>Variation vs. Prior Day Close</i>	1.21%	1.23%	1.05%	1.75%	1.89%	1.76%	
<i>Close Off Low</i>	56.00	97.04	48.67	5.60	164.53	39.68	
<i>Close Off High</i>	65.45	25.77	56.91	170.11	23.88	137.39	
<i>Dow first ½ hr</i>	-95.22	+8.99	-19.95	+32.65	-3.63	-6.66	
<i>Dow Close v. 10:00 am Price</i>	+28.19	+87.29	-30.76	-124.77	+135.58	-102.47	
<i>Dow Last Hour</i>	+1.21	-14.89	+10.28	-128.62	+4.76	+12.62	
<i>NYSE Advances</i>	1047	2257	1039	1021	2051	739	
<i>NYSE Declines</i>	1973	789	2034	2025	1006	2317	
<i>Unchanged</i>	128	113	84	115	106	104	
<i>New Highs</i>	203	430	243	333	151	182	
<i>New Lows</i>	3	3	4	5	5	2	
<i>NYSE Up Volume</i>	334 mm	749 mm	273 mm	371 mm	963 mm	147 mm	
<i>NYSE Down Volume</i>	1.041 b	327 mm	952 mm	1.005 b	335 mm	1.054 b	
<i>NASDAQ Advances</i>	818	1696	716	860	1660	604	
<i>NASDAQ Declines</i>	1808	921	1944	1788	968	2027	
<i>Unchanged</i>	197	221	172	179	190	170	
<i>New Highs</i>	101	165	104	144	52	93	
<i>New Lows</i>	4	11	12	15	12	12	
<i>NASDAQ Up Volume</i>	528 mm	1.378 b	647 mm	661 mm	1.507 b	674 mm	
<i>NASDAQ Down Volume</i>	1.652 b	553 mm	1.423 b	1.866 b	725 mm	1.724 b	

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

	Oct 23 rd , 2009	Oct 16 th , 2009	Oct 9 th , 2009	Oct 2 nd , 2009	Dec 31 st , '08	Dec 28 th , '07
<i>3 month T-bill</i>	0.05%	0.06%	0.06%	0.09%	0.08%	3.14%
<i>6 month T-bill</i>	0.17%	0.15%	0.15%	0.14%	0.26%	3.42%
<i>12 month T-bill</i>	0.39%	0.32%	0.35%	0.34%	0.34%	
<i>2 year T-note</i>	1.00%	0.95%	0.96%	0.86%	0.76%	3.11%
<i>3-year Treasury Note</i>	1.57%	1.49%	1.51%	1.35%	0.97%	
<i>5 year Treasury Note</i>	2.45%	2.35%	2.35%	2.21%	1.55%	3.50%
<i>7-year Treasury Note</i>	3.10%	2.99%	2.97%	2.82%		
<i>10 year Treasury Note</i>	3.49%	3.41%	3.38%	3.22%	2.21%	4.08%
<i>30 year Treasury Bond</i>	4.29%	4.24%	4.22%	4.00%	2.68%	4.50%
<i>Current Prime Rate</i>	3.25%	3.25%	3.25%	3.25%	3.25%	7.25%
<i>Current 1-mo LIBOR</i>	0.24%	0.24%	0.24%	0.24%	0.44%	4.63%
<i>Current 3-mo LIBOR</i>	0.28%	0.28%	0.28%	0.28%	1.42%	4.73%
<i>TED-Spread</i>	23 bps	22 bps	22 bps	19 bps	134 bps	
<i>Spread b/t 10 & 2 Yr. T-Note</i>	249 bps	246 bps	242 bps	236 bps	145 bps	97 bps
<i>1 mo. LIBOR v. Fed Funds</i>	14 bps	10 bps	-1 bps	-1 bps	19 bps	38 bps

Investor Sentiment (AII Index, Barron's)			
	Last Week	Two Weeks Ago	Three Weeks Ago
Bulls	40.5%	47.3%	35.1%
Bears	35.7%	33.8%	41.2%
Neutral	23.8%	18.9%	23.7%

	Current	One Month Prior	Three Months Prior	Six Months Prior	One Year Prior	Year End 2008	Year End 2007
1-Year Adjustable	3.91%	3.93%	4.35%	4.74%	5.76%	5.65%	5.11%
15-Year Mortgage	4.71%	4.67%	4.81%	4.62%	5.59%	5.12%	5.38%
30-Year Mortgage	5.15%	5.25%	5.39%	4.90%	5.96%	5.30%	5.57%

Pertinent Weekly Financial Data					
	Oct 23rd	Oct 16th	Oct 9th	Oct 2nd	December 31st, 2008
NYSE Total Issues	3216	3216	3212	3208	
NYSE Advancing Stocks	1307	1766	2662	947	
NYSE Declining Stocks	1849	1391	510	2220	
NYSE Unchanged Stocks	60	59	40	41	
NYSE New Highs	713	802	684	476	
NYSE New Lows	8	6	8	10	
NYSE Total Weekly Volume	6,316,057	6,185,033	5,706,795	6,942,990	
NASDAQ Total Issues	2949	2944	2937	2954	
NASDAQ Advancing Stocks	927	1426	2241	827	
NASDAQ Declining Stocks	1957	1460	644	2068	
NASDAQ Unchanged Stocks	65	58	52	59	
NASDAQ New Highs	367	446	314	228	
NASDAQ New Lows	43	34	27	31	
NASDAQ Total Weekly Volume	11,541,703	10,688,055	11,278,342	12,044,925	
Unleaded Gasoline Prices Per Gallon	\$2.574	\$2.489	\$2.468	\$2.499	\$1.613
West Texas Intermediate Crude Futures	\$80.50	\$78.53	\$71.77	\$69.95	\$44.60
Natural Gas Futures Per mm BTU	\$4.787	\$4.781	\$4.770	\$4.718	\$5.622
Copper Futures Per Pound	\$3.03	\$2.85	\$2.84	\$2.68	\$1.41
Soybean Futures Per Bushel	\$10.07	\$9.78	\$9.64	\$8.85	\$9.80
Corn Per Bushel	\$3.98	\$3.72	\$3.62	\$3.34	\$4.07
Price of Gold Per Ounce	\$1056.40	\$1051.50	\$1048.60	\$1004.30	\$884.30
Price of Silver Per Ounce	\$17.72	\$17.42	\$17.69	\$16.23	\$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...							
	Oct 23rd, 2009	Oct 16th, 2009	Oct 9th, 2009	Oct 2nd, 2009	Sep 25th, 2009	Dec 31st, 2008	Dec 28th, 2007
US \$ Index (DX-Y.NYB)	75.47	75.72	76.35				
Euro	1.5008	1.4893	1.4732	1.4576	1.4689	1.3978	1.4724
British Pound	1.6306	1.6314	1.5844	1.5946	1.5951	1.4648	1.9966
Japanese Yen	0.0109	0.0011	0.0111	0.0111	0.0112	0.0110	0.0089
Canadian Dollar	0.9490	0.9625	0.9595	0.9261	0.9166	0.8170	1.0186
Swiss Franc	0.9913	0.9818	0.9696	0.9662	0.9731	0.9350	0.8880

First Call/Thomson Financial Projected 2009 Earnings & Price to Earnings Ratios For Dow Jones Industrial Average. (Barron's MW 49)							
	Oct 23rd	Oct 16th	Oct 9th	Oct 2nd	Sep 25th	Sep 18th	Sep 11th
Projected Earnings	\$633.26	\$623.13	\$624.26	\$621.77	\$621.69	\$621.01	\$617.54
P/E Ratio	15.9	16.2	15.7	15.3	15.6	15.8	15.6

SECTOR WEIGHTINGS – Sector Weightings of the iShares S&P 1500 Index Fund

<i>Industry</i>	<i>Sept 30th, 2009</i>		<i>June 30th, 2009</i>		<i>June 30th, 2009</i>		<i>Mar 31st, 2009</i>		<i>Dec 31st, 2008</i>		<i>Dec 31st, 2007</i>		<i>Dec 31st, 2006</i>	
<i>Financials</i>	15.37%	+1.35	14.02%	14.02%	11.68%	13.86%	21.04%	20.90%						
<i>Information Technology</i>	18.25%	+0.23	18.02%	18.02%	17.77%	15.17%	14.69%	15.08%						
<i>Industrials</i>	10.69%	+0.15	10.54%	10.54%	10.30%	11.50%	11.58%	12.27%						
<i>Health Care</i>	13.17%	-0.67	13.84%	13.84%	14.66%	14.54%	11.86%	11.99%						
<i>Consumer Discretionary</i>	9.82%	+0.16	9.66%	9.66%	9.49%	8.94%	11.08%	10.72%						
<i>Energy</i>	10.99%	-0.65	11.64%	11.64%	12.23%	12.47%	9.81%	10.14%						
<i>Consumer Staples</i>	10.92%	-0.12	11.04%	11.04%	11.81%	11.95%	8.82%	8.76%						
<i>Utilities</i>	3.94%	-0.37	4.31%	4.31%	4.49%	4.56%	4.11%	3.79%						
<i>Basic Materials</i>	3.75%	+0.18	3.57%	3.57%	3.66%	3.24%	3.42%	3.28%						
<i>Telecom Services</i>	2.89%	-0.27	3.16%	3.16%	3.65%	3.44%	3.36%	2.94%						

Sector Performance Week Ending Oct 23rd v. Week Ending Oct 16th

	Trailing Week	Year-to-Date	Trailing Twelve Months
Pos/Neg Last Week	30 / 68	89 / 9	92 / 6
Pos/Neg Last Week	77 / 21	89 / 9	92 / 6

Dow Jones U.S. Total Market Industry Groups for the Week Ended October 23rd (Barron's MW 49)

Past Week Top Performing Industry Groups				Past Week Worst Performing Industry Groups			
1	Nonferrous Metals	+5.99%	BM	98	Mortgage Finance	-9.27%	FINL
2	Commercial Vehicles	+5.81%	IND	97	Airlines	-9.10%	CS
3	Computer Hardware	+3.47%	TECH	96	Railroads	-5.51%	IND
4	Electronic Office Equipment	+2.92%	TECH	95	Full Line Insurance	-6.28%	FINL
5	Travel & Tourism	+2.85%	CS	94	Recreational Products	-6.18%	CG
6	Durable Household Products	+2.73%	CG	93	Biotechnology	-6.01%	HC
7	Furnishings	+2.67%	CG	92	Business Training	-5.51%	IND
8	Publishing	+2.65%	CS	91	Media Agencies	-5.19%	CS
9	Industrial Machinery	+2.58%	IND	90	Trucking	-4.99%	IND
10	Software	+2.37%	TECH	89	Steel	-4.27%	BM

Dow Jones U.S. Total Market Industry Groups for the Week Ended October 16th Barron's MW 45)

Past Week Top Performing Industry Groups				Past Week Worst Performing Industry Groups			
1	Transportation Services	+9.39%	IND	98	Mortgage Finance	-4.18%	FINL
2	Food Retailers & Wholesalers	+8.77%	CS	97	Full Line Insurance	-4.00%	FINL
3	Automobiles	+6.80%	CG	96	Real Estate Holdings & Developers	-2.54%	FINL
4	Furnishings	+6.04%	CG	95	Computer Services	-2.46%	TECH
5	Oil Equipment & Services	+6.01%	O&G	94	Gambling	-1.85%	CS
6	Waste & Disposal Services	+5.79%	IND	93	Mobile Telecom	-1.81%	TEL
7	Railroads	+5.68%	IND	92	Real Estate Investment Trusts	-1.43%	FINL
8	Integrated Oil & Gas	+5.26%	O&G	91	Auto Parts	-1.42%	CG
9	Internet	+4.89%	TECH	90	Medical Supplies	-1.33%	HC
10	Specialty Finance	+4.75%	FINL	89	Asset Managers	-1.21%	FINL

Dow Jones U.S. Total Market Industry Groups or the Week Ended October 23rd (Barron's MW 49)									
		Past Week		Year-to-Date		Trailing 12 Months			
1	+7	Technology	+0.89%		Basic Materials	+53.44%		Basic Materials	+46.15%
2	+8	Telecom	-0.46%		Technology	+51.62%		Technology	+45.83%
3	+6	Financials	-0.94%		Consumer Services	+26.59%	+1	Consumer Services	+32.01%
4	+2	Consumer Goods	-0.97%		Oil & Gas	+18.68%	-1	Oil & Gas	+31.05%
5	-2	Consumer Services	-1.00%		Industrials	+17.72%		Industrials	+19.22%
6	-1	Utilities	-1.17%		Financials	+17.17%		Consumer Goods	+15.39%
7	-6	Oil & Gas	-1.27%		Consumer Goods	+15.75%		Health Care	+12.51%
8	-6	Basic Materials	-1.34%		Health Care	+10.18%	+1	Telecom	+10.63%
9	-5	Industrials	-1.45%		Utilities	+2.16%	-1	Utilities	+8.91%
10	-3	Health Care	-1.75%		Telecom	-6.54%		Financials	+5.87%

Dow Jones U.S. Total Market Industry Groups or the Week Ended October 16th (Barron's MW 45)									
		Past Week		Year-to-Date		Trailing 12 Months			
1	+1	Oil & Gas	+4.97%		Basic Materials	+55.53%	+1	Basic Materials	+45.37%
2	-1	Basic Materials	+2.06%		Technology	+50.29%	-1	Technology	+41.51%
3	+3	Consumer Services	+1.70%		Consumer Services	+27.87%	+3	Oil & Gas	+35.96%
4		Industrials	+1.70%	+3	Oil & Gas	+20.21%	-1	Consumer Services	+34.86%
5	+3	Utilities	+1.44%		Industrials	+19.46%		Industrials	+17.88%
6	+1	Consumer Goods	+1.26%	-2	Financials	+18.28%	+1	Consumer Goods	+17.06%
7	+2	Health Care	+1.09%	-1	Consumer Goods	+16.89%	-3	Health Care	+15.79%
8	-3	Technology	+0.57%		Health Care	+12.14%		Utilities	+13.87%
9	-6	Financials	-0.16%		Utilities	+3.37%		Telecom	+7.10%
10		Telecom	-0.19%		Telecom	-6.10%		Financials	+0.39%

Economic Releases

Majority of Economic Data found at www.haver.com

Thursday, October 22nd

INITIAL CLAIMS FOR UNEMPLOYMENT BENEFITS for the week ended October 17th rose 11,000 this past week to 531,000 from 520,000 one week prior, *numbers consistent with an economy in recession as well as an indication that despite the recent pick-up in economic activity, the labor market has yet to benefit in any substantial manner.* The four-week rolling average decreased by 750 to 532,250 from a revised level of 533,000 one week prior. Continuing claims for the week ended October 10th decreased 98,000 to 5.923 million (lowest since late March 2009) from 6.021 million one week prior. The continuing claims four-week average decreased 59,250 to 6.031 from 6.090 million.

The Conference Board reported that its **INDEX OF LEADING ECONOMIC INDICATORS** rose by 1.0% during September, this following gains of 0.4%, 1.0%, 1.3% August, July and June, respectively. Over this four month span the LEI rose 4.7%, marking the strongest over this time frame since the first quarter of 1983. Five of the ten components rose, including longer supplier delivery times, the spread on interest rate maturities, rising stock prices, an increase in building permits and rising consumer expectations. Subtracting from the report was a decrease in the money supply.

Tuesday, October 20th

Prices at the wholesale level as measured by the **PRODUCER PRICE INDEX** fell 0.6% during September, its second decline in the last three months. The PPI rose 1.7% during August and has fallen 4.7% y/y. Helping to restrain the PPI was the 2.4% decline in energy prices (-22.2% y/y), the 5.4% drop in gasoline prices (-37.5% y/y) and a 1.9% decline in prices for natural gas (-24.5% y/y). Excluding food and energy, the so-called **core PPI** slipped 0.1% during September, rose 0.2% during August, and has risen 1.8% y/y. Wholesale Prices at the **Intermediate Level** rose 0.2% (-11.6% y/y) during September while prices for **Crude Goods** (Raw Materials) fell 2.1% during September and by 31.5% y/y.

The Commerce Department reported that **HOUSING STARTS** rose 3,000 during September to 590,000 from 587,000 once month prior. Over the past twelve months housing starts have fallen 28.2%. Of note is the fact that there must be approximately one million housing starts per year just to replace those lost to natural causes, man-induced causes or by the growing U.S. population. **Single-family** housing starts rose 19,000 to 501,000 in September from 482,000 in August, the fifth increase over the past six months. Over the past year single-family housing starts have fallen 8.7%, have fallen seventy-five percent from its peak during January 2006, but have risen 40% off their recent lows. **Multi-family** housing starts fell to 89,000 in September from 105,000 during August while over the past year they have fallen 67.4%. Finally, **SINGLE FAMILY BUILDING PERMITS**, a preview of future housing starts, fell to 573,000 in September from 580,000 one month prior, but have fallen 28.9% y/y.

Friday, October 9th

The **U.S. Trade Deficit** during August shrank 3.75% to \$30.7 billion from \$31.9 billion one month prior as petroleum imports shrank 5.7% while exports rose just 0.2%. The consensus estimate projected the deficit to remain at or near \$32.00 billion. Oil rose to \$64.75/bbl during August from \$62.48/bbl during July and from a cycle low of \$39.22/bbl recorded during this past February. Oil remains approximately 55.0% below year ago levels. Non-Petroleum Import costs rose by 0.3% during August, but they are 24.6% below one year ago. **Imports** fell 0.6% during August to \$158.9 billion from \$159.6 billion, while **exports** rose 0.2% to \$128.2 billion from \$127.6 billion. We agree with James O'Sullivan, senior economist at UBS Securities who states that "it looks like the plunge in exports is over, which is of course consistent with the goal of the economy starting to stabilize after a dramatic collapse."

Wednesday, October 7th

The Federal Reserve reported that **CONSUMER CREDIT** fell by \$12.0 billion during August, the seventh consecutive monthly decline and the eleventh over the past thirteen. Moreover, this follows a \$15.0 billion decline during July. Consumer Credit has never contracted eight consecutive months since the Federal Reserve started following it in 1943. Over the past year Consumer Credit has fallen by 4.0% as high unemployment and a bottoming housing market has put them on the shelf. 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 and student loans), which accounts for nearly two-thirds of total consumer credit, fell by \$2.1 billion during August and by 2.4% y/y while **revolving credit** (credit cards) outstanding fell \$9.9 billion during August, a record eleven consecutive declines, and by 7.8% y/y, this according to the Federal Reserve. This combination pushed the **SAVINGS RATE** up to 5.0%.

Monday, October 5th

The Institute for Supply Management's **composite index of non-manufacturing (service) sector activity** rose to 50.9% during September from 48.4% during August, notching its highest level since May 2008 and as well moved above the critical 50.0% mark, which separates and expanding service sector from a contracting one. Of note, was the rise **Business Activity** (55.1 v. 51.3), **New Orders** (54.2 v. 49.9), the **Backlog of Orders** (51.5 v. 41.0), and **Import Orders** (51.5 v. 49.0). The ISM Index also registered growth in the **Employment Component** (44.3 v. 43.5) while the **Prices Paid Component** (48.8 v. 63.1) plunged.

Friday, October 2nd

NON-FARM PAYROLLS fell by 263,000 during September, far exceeding the consensus estimate of 180,000 indicating that perhaps the worst is over for the labor market, but an upturn has yet to materialize. Payroll losses during August were revised up to show a loss of 201,000 versus an initial report of 216,000 while July's numbers were revised downward to show losses of 304,000 versus an initial report of 247,000. Over the past three months, employers shed an average of 255,000 workers versus 318,000 one month ago and compared to a record high of 701,000 over the latter part of 2008 and early 2009. 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 9.8% during September from 9.7% in August, the highest since June 1983, a rate which many believe will peak above ten percent early next year. The September drop brings the total number of jobs lost since this recession started in November 2007, twenty-one months ago to 7.2 million, a record for this timeframe. Furthermore, if laid-off workers who have given up looking for new jobs or are working part-time out of necessity were included, the unemployment rate would have been 17.0% in September, up from 16.8% one month prior, the highest rate since these types of records began being kept in 1994. The **labor force participation rate** declined to 65.2% in September from 65.5%, which marks a twenty-three year low. **Average hourly earnings** rose by \$0.01 to \$18.67 from \$18.66 while over the past year, AHE has risen 2.5%. Of some concern, **hours worked** fell back to 33.0, a record low, from 33.1 hours one month prior. The combination pushed **average weekly earnings** down \$1.54 or 0.25% to \$616.11 from \$617.65. Average weekly earnings have risen by just 0.7% over the past year, in large part due to declines in the length of the average workweek. *As noted last month, at this particular time it is difficult to envision the labor market making substantial gains while the average workweek is near historic lows, capacity utilization remains low and the unemployment rate remains high.*

Thursday, October 1st

The Bureau of Economic Analysis reported that **PERSONAL INCOME** rose 0.2% during August, this after it remained unchanged during July, a further sign that the recovery is continuing, but at a modest pace. Over the past twelve months, personal incomes have fallen 2.6%, causing many to wonder where the recovery in consumer spending will come from. **DISPOSABLE PERSONAL INCOME** (personal income less taxes) edged up 0.1% in August, after remaining unchanged in July (+0.8% y/y). **PERSONAL CONSUMPTION**, which represents approximately 70% of economic activity, rose by 1.3% in August, by 0.2% during July, but has fallen by 0.5% y/y. As a result of the fact that incomes fell faster than consumption, the result was a continued movement down in the **SAVINGS RATE**, to 3.0% in August from 4.0% in July. The **PCE CHAIN PRICE INDEX**, one of the Fed's favorite measures of inflation rose 0.3% during August versus remaining unchanged in July and down 0.5% y/y. The **core PCE Chain Price Index** rose 0.1% during August, an identical amount to July, and are 1.3% above year-ago levels.

U.S. CONSTRUCTION SPENDING rose 0.8% during August, far above the consensus estimate which was for a decline of 0.2%. However, July numbers were revised downward to -1.1% from an initially reported decline of 0.2%. Over the past year Construction Spending has fallen 11.6%. **Private Construction Spending** rose 1.8% in August, but has fallen 17.8% y/y while **Private Residential Construction Spending** rose 4.7% (-26.7% y/y) perhaps indicating a bottom has been reached. **Private Nonresidential Construction Spending** slipped 0.1% (-10.5% y/y). Finally, **Public Construction** fell 1.1% during August, but has risen 3.3% y/y.

The Institute for Supply Management's **composite index of manufacturing sector activity** slipped to a level of 52.6% during September from 52.9% one month prior. The July reading had marked a two-year high. The ISM hit a low of 32.9% this past December. 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 an improvement in **Supplier Delivery Times** (58.0 v. 57.1), **Inventories** (42.5 v. 34.4), the **Backlog of Orders** (53.5 v. 52.5) and **Imports** (52.0 v. 49.5). Of note was the weakening in **Employment** (46.2 v. 46.4) as well as slippage in the **Prices Paid Component** (63.5 v. 65.0).

Tuesday, September 29th

In its **SECOND AND FINAL REVISION TO SECOND QUARTER GROSS DOMESTIC PRODUCT**, the Commerce Department reported that it fell 0.7% from an initially revised decline of 1.0%, which matched the advanced (initial) report. That was less than the consensus of -1.2% and an improvement from the 6.4% decline recorded during Q1. **Domestic Final Demand** fell at a revised annualized rate of 0.9% (-3.7% y/y) during the second quarter versus a previously reported drop of 1.2% during the second quarter, far better than the 6.4% drop during Q1. **Inventories** were unchanged, having a negative drag of 1.4% Q2 GDP vs. an initially reported drag of 0.8% while the positive impact from **foreign trade** rose to 1.7% (+0.9% y/y) from 1.6%. The **PCE Chained GDP Price Index** remained unchanged (+1.5% y/y).

Monday, September 28th

The **CONFERENCE BOARD'S CONSUMER CONFIDENCE INDEX** edged down to 53.1 during September from a reading of 54.5 in August, surprising many who expected this number to continue upward. The **expectations component** fell to 73.3 from 73.8 during September while the **present situations index** fell to 22.7 from 25.4. Those surveyed that said that **jobs are "hard to get"** increased to 47.0% from 44.3% while those claiming that **jobs are "plentiful"** fell to 3.4% from 4.3%. Those **expecting business conditions to improve** decreased to 21.3% from 22.2% in August.

Friday, September 25th

ORDERS FOR DURABLE GOODS (those expected to last at least three years) slipped 2.4% during August, reversing exactly one-half of the 4.8% increase recorded during July. Over the past year, Orders for Durable Goods have plunged 20.2%. Orders were led lower the 29.9% drop in transportation orders as well as the 0.7% decline in orders for computers and electronic products. **Excluding transportation, orders for durable goods** edged downward by less than 0.1% in August, this after rising 0.9% during July, but have fallen 18.9% y/y. Finally, **inventories** fell for the eighth consecutive month, during August by 1.3% (-8.9% y/y) while **shipments** declined by 1.4% (-17.8% y/y).

The Commerce Department reported that **SALES OF NEW HOMES** edged up 3,000 or 0.7% during August to an annualized rate of 429,000 units from a revised 426,000 (orig. 433,000) during July, perhaps, once again, a sign that we have reached the end of the downturn in the housing market and have at least stabilized. Sales of New Homes have fallen by 4.3% 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** dropped to just 7.3 months during August from 7.5 months during July and from 12.4 months recorded during January 2009. The **median price of a new home** plunged 9.5% during August to \$195,200 from \$215,600 during July and has fallen 11.7% from \$221,000 over the past year. Of note, the **S&P CASE-SHILLER HOME PRICE INDEX**, an index of twenty metropolitan markets, rose by 1.2% during July to 143.05 from 141.42 one month prior (January 2000 = 100), the second consecutive monthly increase. However, despite this fact, the index remains 13.3% below year-ago levels.

The University of Michigan reported that its **FINAL SEPTEMBER READING OF CONSUMER SENTIMENT** rose to 73.5% from a preliminary September 70.2% and from a final August level of 65.7%. The **expectations** index rose to 73.5% at the end of September from a mid-month level of 69.2% and from 65.0% at the close of August. The **current conditions** component rose to 73.4% from a mid-September reading of 71.8% and from 66.6% at the end of August.

Thursday, September 24th

SALES OF EXISTING HOMES slipped 2.67% during August to an annualized rate of 5.100 million units from 5.240 million units during July, thus breaking what had been four consecutive monthly increases. Sales of Existing Homes have now risen 3.4% over the past twelve months. The **inventory of unsold homes** fell to 8.5 months from 9.3 months during July, the lowest since mid-2007. The **inventory of unsold single-family homes** also fell to 8.2 months during August from 8.6 months during July, the lowest level since 2007. Finally, the **median existing-home sales price** slipped 2.09% to \$177,700 during August from \$181,500 when compared to July and have fallen 12.5% over the past year and by approximately 30% from their all-time highs.

Wednesday, September 16th

INDUSTRIAL PRODUCTION, a measure of strength of the manufacturing, factory and utility sectors, rose 0.8% during August, the second consecutive monthly increase. Prior to these increases Industrial Production had fallen every month since December 2006. Year-Over-Year Industrial Production has fallen 10.8%, just off its record 13.6% decline recorded during May, the steepest since the latter part of 1946 when the United States Factory Sector was winding down its production capacity increased for World War II. Overall **CAPACITY UTILIZATION** rose to 69.6% from 69.0% while utilization in the factory sector improved to 66.6% during August from 66.1% and from a near 80% peak back in 2007.

Prices at the retail level as represented by the **CONSUMER PRICE INDEX** rose 0.4% during August, this after remaining unchanged during July. Over the past year the CPI has fallen 1.5%. The y/y decrease one month ago had been 1.9%, the steepest drop since 1950. The **core CPI**, which is represented by the CPI excluding food and energy, rose just 0.1% during August, identical to the increase recorded during July. Over the last twelve months, the core-PPI has risen 1.4%. Finally, the **chained CPI**, which measures inflation, but adjusts for shift in the mix of consumer purchases, rose 0.2% during August, but has fallen 1.5% y/y.

Tuesday, September 15th

RETAIL SALES jumped 2.7% during August, boosted by the “cash for clunkers” program which in turn pushed automobile sales up 10.7%. Over the past year Retail Sales have fallen 5.3%. **EXCLUDING AUTOMOBILES AND GASOLINE** and perhaps illustrative of the tendency of the consumer to truly spend, Retail Sales rose 0.6% during August (-2.9% y/y) while **excluding automobiles**, they rose 1.1% (-6.2% y/y).

BUSINESSES SLASHED INVENTORIES during July by 1.0%, this after cutting them by 1.4% and 1.1% during June and May, respectively, marking the eleventh consecutive month, a streak that is the longest since the fifteen months ending April 2002. Year-over-year business inventories have fallen 11.8%. This pace of inventory reduction has not been witnessed since 1980 and perhaps is signaling that when the economy just stabilizes businesses will have to ramp up production. **BUSINESS SALES** rose 0.1% during July, the second consecutive increase. The combination of declining inventories and increasing sales pushed the **INVENTORY-TO-SALES RATIO** to 1.36 months from 1.41 months.

Friday, September 11th

U.S. Import Prices rose 2.0% during August, the fourth increase over the past five months as petroleum costs rose 10.5%. Nonetheless, Import Prices remain 15.0% below year ago levels as petroleum prices have cratered 38.1%. During July, Import Prices fell 0.7%. **Export prices** edged up 0.7% in August, but remain 6.1% below year ago levels. **Agricultural export prices** rose 0.2% during August, but have fallen 14.1% y/y while **Non-Agricultural Export Prices** rose 0.8% in August, but have fallen 5.3% y/y.

Wednesday, September 2nd

SECOND QUARTER PRODUCTIVITY was revised upward to an annualized rate of 6.6% from an initially reported 6.4%, the strongest quarterly growth since the second quarter of 2003. Not only did productivity jump, but it did so amidst a severe economic downturn, contrary to nearly any other recessionary period in the history of our nation. Over the past year, productivity has risen 1.9%. **HOURLY COMPENSATION** rose at a revised annualized rate of 0.3% during Q2 from an initially reported jump of 1.2% (0.7% y/y), accounting for the slight change in overall productivity. **UNIT LABOR COSTS** (defined as output per hour of work and can be determined by dividing hourly labor costs by output per hour) fell at a revised annualized rate of 5.9% (-1.2% y/y) during Q2 from an initially reported decline of 5.8% and down from -2.7% during Q1. The sharp increase in productivity was a result of sharper cost cutting by employers in the form of hours worked and the number of employees when compared to output.

Friday, July 31st

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 second quarter, matching the gains notched during the first quarter, but nonetheless representing the lowest increase in a decade while over the past year the index rose by just 1.5%, an all-time low for this series, which dates back to 1981. The **wages & salaries component** (70% of ECI) rose by 0.2% (1.5% y/y) during the second quarter, this following the 0.2% gain during the first quarter. The **cost of benefits** rose by 0.2% over the past quarter, by 0.2% during the first quarter and by just 1.3% 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:

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 September 23rd, 2009 Meeting

Information received since the Federal Open Market Committee met in August suggests that economic activity has picked up following its severe downturn. Conditions in financial markets have improved further, and activity in the housing sector has increased.

Household spending seems to be stabilizing, but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment and staffing, though at a slower pace; they continue to make progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will support a strengthening of economic growth and a gradual return to higher levels of resource utilization in a context of price stability.

With substantial resource slack likely to continue to dampen cost pressures and with longer-term inflation expectations stable, the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will continue to employ a wide range of 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 continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. 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 \$1.25 trillion of agency mortgage-backed securities and up to \$200 billion of agency debt. The Committee will gradually slow the pace of these purchases in order to promote a smooth transition in markets and anticipates that they will be executed by the end of the first quarter of 2010. As previously announced, the Federal Reserve's purchases of \$300 billion of Treasury securities will be completed by the end of October 2009. 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 monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

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 August 12th, 2009 Meeting

Information received since the Federal Open Market Committee met in June suggests that economic activity is leveling out. Conditions in financial markets have improved further in recent weeks. Household spending has continued to show signs of stabilizing but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting

back on fixed investment and staffing but are making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, 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.

The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.

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 continues to anticipate 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 is in the process of buying \$300 billion of Treasury securities. To promote a smooth transition in markets as these purchases of Treasury securities are completed, the Committee has decided to gradually slow the pace of these transactions and anticipates that the full amount will be purchased by the end of October. 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 monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

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 June 23rd 24th, 2009 Meeting

Information received since the Federal Open Market Committee met in April suggests that the pace of economic contraction is slowing. Conditions in financial markets have generally improved in recent months. Household spending has shown further signs of stabilizing but remains constrained by ongoing job losses, lower housing wealth, and tight credit. Businesses are cutting back on fixed investment and staffing but appear to be making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, 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.

The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.

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 continues to anticipate 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 monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

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 1/4 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 dampening 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 June 25th, 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

• New York Tax Freedom Day for 2009	May 5 th
• 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 be 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 September 30th, 2009.

Percent of Common Stock	Company Name	Symbol	As of Sept 30th, 2009	As of Aug 31st, 2009	As of July 31st, 2009
6.31%	Hewlett Packard	HPQ	1	1	1
5.47%	Apple Computer	AAPL	2	2	2
4.54%	JP Morgan Chase	JPM	3	3	3
4.51%	General Electric	GE	4	4	4
3.40%	McDonald's Corporation	MCD	5	5	6
3.12%	Exxon Mobil	XOM	6	6	5
2.82%	Nike, Inc.	NKE	7	10	10
2.64%	Intel Corp.	INTC	8	7	9
2.58%	Pepsico, Inc.	PEP	9	9	8
2.51%	MasterCard, Inc.	MA	10	8	7
2.30%	Johnson & Johnson	JNJ	11	11	11
2.20%	S&P 500 ADR's	SPY	12	13	13
2.17%	Conoco Phillips	COP	13	12	12
2.12%	Cisco Systems, Inc.	CSCO	14	14	14
2.03%	Research In Motion	RIMM	15	15	15
1.64%	Emerson Electric Co.	EMR	16	18	18
1.60%	iShares DJ Select Divd Index	DVY	17	16	17
1.50%	Bank of America	BAC	18	17	19
1.49%	Celgene Corp.	CELG	19	19	16
1.40%	Foster Wheeler	FWLT	20	21	25
1.37%	Pfizer, Inc.	PFE	21	20	20
1.20%	Dell Computer	DELL	22	22	27
1.14%	Suncor Energy	SU	23	26	24
1.04%	Microsoft Corp.	MSFT	24	27	28
1.03%	Oracle Corporation	ORCL	25	24	23
1.01%	Baxter International	BAX	27	25	26
0.99%	First Niagara Financial	FNFG	29	23	22
0.66%	Target Corporation	TGT	44	41	21

Portfolio Concentration: Top 25 holdings represent 62.12% of the common stock portfolio, as of September 30th, 2009.

Largest Mutual Fund Holdings as of September 30th, 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	PIMCO Total Return
T Rowe Price Growth Stock Fund	BLDRS Asia 50 ADR Index	MetWest Total Return Bond Fund

Common Stock & Equity ETF Portfolio Holdings**
Ranked by *Share Balance* as of September 30th, 2009.

Notes & Stock Splits; Avg. Cost Per Share	Company Name	Symbol	As of Sept 30th, 2009	As of Aug 31st, 2009	As of July 31st, 2009
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\$23.73	1	1	General Electric	GE	121,411	122,051	122,571
\$19.56	2	3	Intel Corporation	INTC	59,331	55,388	55,138
\$42.70	3	2	Hewlett Packard Co.	HPQ	58,786	58,676	58,756
\$40.00	4	4	JP Morgan Chase	JPM	45,225	45,605	46,134
\$23.58	5	5	Cisco Systems	CSCO	39,623	39,308	39,758
\$21.08	6	6	Bank of America	BAC	38,973	38,973	38,873
\$5.84	7	9	Ford Motor Company	F	37,370	35,350	34,150
\$18.82	8	8	Pfizer, Inc.	PFE	36,433	35,558	35,558
\$10.32	9	7	First Niagara Financial	FNFG	35,143	38,118	38,100
\$12.15	10	10	Dell Computer	DELL	34,465	33,160	33,560
\$14.40	21	25	iPath DJ-AIG Natural Gas	GAZ	28,225	16,915	0
\$12.88	12	N/A	Duke Realty Corp.	DRE	26,750	0	0
\$40.44	13	11	McDonalds Corp.	MCD	26,152	25,422	25,172
\$19.70	14	13	Oracle Corporation	ORCL	21,634	21,824	21,974
\$44.93	15	14	Conoco Phillips	COP	21,115	21,115	21,320
\$36.01	16	16	Exxon Mobil	XOM	19,993	20,192	21,317
\$12.62	17	28	China Green Agriculture	CGA	19,915	13,355	335
\$15.73	18	15	SPDR Select Tech	XLK	19,845	20,240	20,240
\$21.86	19	17	Foster Wheeler	FWLT	19,340	19,690	20,055
\$63.29	20	18	Pepsico, Inc.	PEP	19,322	18,807	19,007
\$59.51	21	19	Nike, Inc.	NKE	19,146	18,471	18,561
\$15.43	22	N/A	Mylan Labs	MYL	18,750	0	0
\$9.12	23	23	TrustCo	TRST	18,705	17,164	17,164
\$41.67	24	21	Emerson Electric	EMR	17,940	17,445	17,165
\$28.05	25	20	Microsoft Corp.	MSFT	17,784	17,708	18,038
\$49.89	26	22	iShares DJ Select Divd Index	DVY	16,990	17,329	17,439
\$19.65	28	24	SPDR Select Financial	XLF	16,481	17,041	17,481
\$23.09	233	12	Corning, Inc.	GLW	240	23,255	23,255

**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

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.

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.

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 or 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 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.

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.

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.