

## Recap Of The Financial Markets

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Week Ended February 26<sup>th</sup>, 2010

Stocks digested the recent run-up off the upper single digit correction this past week as mixed economic data in the form of higher than expected Initial Claims for Unemployment Benefits, weak housing data and a drop in Consumer Confidence. That said, during his semi-annual testimony, Federal Reserve Chairman Ben Bernanke suggested that interest rates would remain low for quite some time. Sounding like a broken record, we again note that that calendar year 2010 would be one marked by enough positive data to support stocks at current levels, but also enough negative data points to prevent them from going much higher. We will revise that to read at least for the first half. You name it, health care reform, financial re-regulation, tax increases, China reigning in their economy, high unemployment, low wage growth, a contracting private sector, municipal debt woes, all will weigh on investor sentiment. On the flip side, the economy is improving, inventories are low and corporate earnings are rebounding in a major way. A digestion of last year's gains is in order and that will hopefully be accomplished in somewhat of a sideways move for stocks. That this point we believe that from the calendar year 2009 close, the downside to the market is probably limited to ten percent as is the upside.

| Index               | Weekly Change | Closing Value | % Change Prior Week | Year-to-Date % Change | Trailing 12 Mo. % Change |
|---------------------|---------------|---------------|---------------------|-----------------------|--------------------------|
| Dow Jones Ind. Avg. | -77.09        | 10325.26      | -0.74%              | -0.99%                | +46.19%                  |
| S&P 500             | -4.68         | 1104.49       | -0.42%              | -0.95%                | +50.25%                  |
| NASDAQ Comp.        | -5.61         | 2238.26       | -0.25%              | -1.35%                | +62.45%                  |
| DJ Wilshire 5000    | -46.34        | 11453.20      | -0.40%              | +0.38%                | +53.24%                  |
| Russell 2000        | -3.06         | 628.56        | -0.48%              | +0.51%                | +61.58%                  |
| Dow Utilities       | -9.71         | 367.39        | -2.57%              | -7.69%                | +13.40%                  |
| Dow Transports      | +74.05        | 4134.57       | +1.82%              | +0.85%                | +65.44%                  |

| Index               | Closing Record High | Date of Closing Record High | % from Prior Record High | March 9 <sup>th</sup> , 2009 Closing Low | % From Closing Low Mar 9, 2009 |
|---------------------|---------------------|-----------------------------|--------------------------|--|--------------------------------|
| Dow Jones Ind. Avg. | 14164.53            | 9-Oct-2007                  | 27.10%                   | 6547.05                                  | 57.71%                         |
| S&P 500             | 1565.15             | 9-Oct-2007                  | 29.43%                   | 676.53                                   | 63.26%                         |
| NASDAQ Comp         | 5048.62             | 10-Mar-2000                 | 55.67%                   | 1268.24                                  | 76.49%                         |
| DJ Wilshire 5000    | 15806.69            | 9-Oct-2007                  | 27.54%                   | 6858.43                                  | 66.99%                         |
| Russell 2000        | 855.70              | 13-July-2007                | 26.54%                   | 343.26                                   | 83.11%                         |
| Dow Utilities       | 552.74              | 10-Dec-2007                 | 33.53%                   | 290.68                                   | 26.39%                         |
| Dow Transports      | 5446.49             | 19-July-2007                | 24.09%                   | 2146.89                                  | 92.58%                         |

| Index               | Close on Dec 31, 1999 | Post Attack Low Sept 21, 2001 | Year End 2007 Close | Year End 2008 Close | Year-End 2009 Close |
|---------------------|-----------------------|-------------------------------|---------------------|---------------------|---------------------|
| Dow Jones Ind. Avg. | 11497.12              | 7926.90                       | 13,264.82           | 8,776.39            | 10,428.05           |
| S&P 500             | 1469.25               | 944.75                        | 1,468.36            | 903.25              | 1,115.10            |
| NASDAQ Comp.        | 4069.31               | 1387.06                       | 2,652.28            | 1,577.03            | 2,269.15            |
| DJ Wilshire 5000    | 13812.70              | 8900.45                       | 14,819.58           | 9,087.17            | 11,497.41           |
| Russell 2000        | 504.75                | 378.89                        | 766.03              | 499.45              | 625.39              |
| Dow Utilities       | 283.36                | 316.19                        | 532.53              | 370.76              | 398.01              |
| Dow Transports      | 2977.20               | 2054.84                       | 4,570.55            | 3,537.15            | 4,099.63            |

| Index               | Post-Attack Closing High | % from Post Attack Close High | Post-Attack High to March 9 <sup>th</sup> Closing Low | Post Bear Market Closing High | % from Post Bear Market Closing High |
|---------------------|--------------------------|-------------------------------|---|-------------------------------|--------------------------------------|
| Dow Jones Ind. Avg. | 14164.53                 | 27.10%                        | 53.78%  | 10725.43                      | 3.73%                                |
| S&P 500             | 1565.15                  | 29.43%                        | 56.78%  | 1150.23                       | 3.98%                                |
| NASDAQ Comp.        | 2859.12                  | 21.72%                        | 55.64%  | 2320.40                       | 3.54%                                |
| DJ Wilshire 5000    | 15806.69                 | 27.54%                        | 56.61%  | 11865.49                      | 3.47%                                |
| Russell 2000        | 855.70                   | 26.54%                        | 59.89%  | 649.15                        | 3.17%                                |
| Dow Utilities       | 552.74                   | 33.53%                        | 47.41%  | 406.72                        | 9.67%                                |
| Dow Transports      | 5446.49                  | 24.09%                        | 60.58%  | 4262.86                       | 3.01%                                |

| MARKET INTERNALS                     |                      |                      |                      |                      |                      |                      |  |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|--|
|                                      | Friday               | Monday               | Tuesday              | Wednesday            | Thursday             | Friday               |  |
| Date                                 | Feb 19 <sup>th</sup> | Feb 22 <sup>nd</sup> | Feb 23 <sup>rd</sup> | Feb 24 <sup>th</sup> | Feb 25 <sup>th</sup> | Feb 26 <sup>th</sup> |  |
| <b>Dow Change</b>                    | +9.45                | -18.97               | -100.97              | +91.75               | -53.13               | +4.23                |  |
| <b>NYSE Volume</b>                   | 1.121 b              | 943 mm               | 1.080 b              | 1.007 b              | 1.145 b              | 1.247 b              |  |
| <b>S&amp;P500 Volatility Index</b>   | 20.02                | 19.94                | 21.37                | 20.27                | 20.10                | 19.50                |  |
| <b>NASDAQ Close</b>                  | <b>2243.87</b>       | <b>2242.03</b>       | <b>2213.44</b>       | <b>2235.90</b>       | <b>2234.22</b>       | <b>2238.26</b>       |  |
| <b>NASDAQ Change</b>                 | +2.16                | -1.84                | -28.59               | +22.46               | -1.68                | +4.04                |  |
| <b>NASDAQ Volume</b>                 | 2.144 b              | 1.952 b              | 2.291 b              | 2.140 b              | 2.276 b              | 2.286 b              |  |
| <b>NASDAQ Vol Index (^vxn)</b>       | 20.81                | 20.43                | 21.55                | 20.63                | 20.52                | 19.78                |  |
| <b>S&amp;P 500 Close</b>             | <b>1109.17</b>       | <b>1108.01</b>       | <b>1094.60</b>       | <b>1105.24</b>       | <b>1102.94</b>       | <b>1104.49</b>       |  |
| <b>S&amp;P 500 Change</b>            | +2.42                | -1.16                | -13.41               | +10.64               | -2.30                | +1.55                |  |
| <b>Russell 2000 Close</b>            | <b>631.62</b>        | <b>632.25</b>        | <b>625.07</b>        | <b>630.43</b>        | <b>630.46</b>        | <b>628.56</b>        |  |
| <b>Russell 2000 Change</b>           | +2.30                | +0.63                | -7.18                | +5.36                | +0.03                | -1.90                |  |
| <b>Wilshire 5000 Close</b>           | <b>11499.54</b>      | <b>11492.00</b>      | <b>11350.90</b>      | <b>11455.00</b>      | <b>11439.10</b>      | <b>11453.20</b>      |  |
| <b>Wilshire 5000 Change</b>          | +29.55               | -7.54                | -141.10              | +104.10              | -15.90               | +14.10               |  |
| <b>Dow High (a)</b>                  | 10438.55             | 10433.64             | 10411.12             | 10393.51             | 10366.68             | 10353.45             |  |
| <b>Dow Low (a)</b>                   | 10339.17             | 10368.95             | 10267.83             | 10283.92             | 10185.83             | 10272.29             |  |
| <b>Dow at 10:00 a.m.</b>             | 10346.50             | 10406.28             | 10401.07             | 10348.92             | 10217.87             | 10318.46             |  |
| <b>Dow 1 Hour Before Close</b>       | 10404.39             | 10411.27             | 10299.87             | 10346.35             | 10285.44             | 10346.05             |  |
| <b>Dow Close</b>                     | <b>10402.35</b>      | <b>10383.38</b>      | <b>10282.41</b>      | <b>10374.16</b>      | <b>10321.03</b>      | <b>10325.26</b>      |  |
| <b>Variation</b>                     | 99.38                | 64.69                | 143.29               | 109.59               | 180.85               | 81.16                |  |
| <b>Variation vs. Prior Day Close</b> | 0.96%                | 0.62%                | 1.38%                | 1.07%                | 1.74%                | 0.79%                |  |
| <b>Close Off Low</b>                 | 63.18                | 14.43                | 14.58                | 90.24                | 135.20               | 52.97                |  |
| <b>Close Off High</b>                | 36.20                | 50.26                | 128.71               | 19.35                | 46.65                | 28.19                |  |
| <b>Dow first ½ hr</b>                | -46.40               | +3.93                | +17.69               | +66.51               | -156.29              | -2.57                |  |
| <b>Dow Close v. 10:00 am Price</b>   | +55.85               | -22.90               | -118.66              | +25.24               | +103.16              | +6.80                |  |
| <b>Dow Last Hour</b>                 | -2.04                | -27.89               | -17.46               | +27.81               | +35.59               | -20.79               |  |
| <b>NYSE Advances</b>                 | 1825                 | 1538                 | 955                  | 2247                 | 1528                 | 1829                 |  |
| <b>NYSE Declines</b>                 | 1245                 | 1550                 | 2143                 | 849                  | 1534                 | 1238                 |  |
| <b>Unchanged</b>                     | 109                  | 93                   | 85                   | 83                   | 102                  | 104                  |  |
| <b>New Highs</b>                     | 193                  | 213                  | 122                  | 138                  | 114                  | 186                  |  |
| <b>New Lows</b>                      | 1                    | 4                    | 7                    | 7                    | 9                    | 4                    |  |
| <b>NYSE Up Volume</b>                | 621 mm               | 466 mm               | 138 mm               | 761 mm               | 545 mm               | 734 mm               |  |
| <b>NYSE Down Volume</b>              | 438 mm               | 469 mm               | 935 mm               | 238 mm               | 585 mm               | 497 mm               |  |
| <b>NASDAQ Advances</b>               | 1403                 | 1427                 | 895                  | 1661                 | 1140                 | 1251                 |  |
| <b>NASDAQ Declines</b>               | 1243                 | 1262                 | 1763                 | 998                  | 1506                 | 1436                 |  |
| <b>Unchanged</b>                     | 145                  | 126                  | 135                  | 132                  | 147                  | 115                  |  |
| <b>New Highs</b>                     | 131                  | 134                  | 52                   | 88                   | 74                   | 93                   |  |
| <b>New Lows</b>                      | 9                    | 9                    | 14                   | 15                   | 14                   | 7                    |  |
| <b>NASDAQ Up Volume</b>              | 1.044 b              | 916 mm               | 403 mm               | 1.493 b              | 807 mm               | 1.163 b              |  |
| <b>NASDAQ Down Volume</b>            | 1.053 b              | 984 mm               | 1.834 b              | 570 mm               | 1.422 b              | 1.005 b              |  |

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

|   | Feb 26 <sup>th</sup> , 2010 | Feb 19 <sup>th</sup> , 2010 | Feb 12 <sup>th</sup> , 2010 | Dec 31 <sup>st</sup> , 2009 | Dec 31 <sup>st</sup> , '08 | Dec 28 <sup>th</sup> , '07 |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|
| <b>3 month T-bill</b>                   | 0.11%                       | 0.09%                       | 0.09%                       | 0.06%                       | 0.08%                      | 3.14%                      |
| <b>6 month T-bill</b>                   | 0.18%                       | 0.18%                       | 0.17%                       | 0.19%                       | 0.26%                      | 3.42%                      |
| <b>12 month T-bill</b>                  | 0.29%                       | 0.36%                       | 0.33%                       | 0.44%                       | 0.34%                      |                            |
| <b>2 year T-note</b>                    | 0.81%                       | 0.92%                       | 0.83%                       | 1.14%                       | 0.76%                      | 3.11%                      |
| <b>3-year Treasury Note</b>             | 1.33%                       | 1.49%                       | 1.39%                       | 1.67%                       | 0.97%                      |                            |
| <b>5 year Treasury Note</b>             | 2.30%                       | 2.45%                       | 2.33%                       | 2.68%                       | 1.55%                      | 3.50%                      |
| <b>7-year Treasury Note</b>             | 3.05%                       | 3.22%                       | 3.10%                       | 3.38%                       |                            |                            |
| <b>10 year Treasury Note</b>            | 3.61%                       | 3.77%                       | 3.69%                       | 3.83%                       | 2.21%                      | 4.08%                      |
| <b>30 year Treasury Bond</b>            | 4.56%                       | 4.70%                       | 4.65%                       | 4.63%                       | 2.68%                      | 4.50%                      |
| <b>Current Prime Rate</b>               | 3.25%                       | 3.25%                       | 3.25%                       | 3.25%                       | 3.25%                      | 7.25%                      |
| <b>Current 1-mo LIBOR</b>               | 0.23%                       | 0.23%                       | 0.23%                       | 0.23%                       | 0.44%                      | 4.63%                      |
| <b>Current 3-mo LIBOR</b>               | 0.25%                       | 0.25%                       | 0.25%                       | 0.25%                       | 1.42%                      | 4.73%                      |
| <b>TED-Spread</b>                       | 14 bps                      | 16 bps                      | 16 bps                      | 19 bps                      | 134 bps                    |                            |
| <b>Spread b/t 10 &amp; 2 Yr. T-Note</b> | 280 bps                     | 285 bps                     | 286 bps                     | 269 bps                     | 145 bps                    | 97 bps                     |
| <b>1 mo. LIBOR v. Fed Funds</b>         | 11 bps                      | 11 bps                      | 10 bps                      | 22 bps                      | 19 bps                     | 38 bps                     |

| <b>Investor Sentiment (AAII Index, Barron's)</b> |                  |                      |                        |
|--|------------------|----------------------|------------------------|
|  | <b>Last Week</b> | <b>Two Weeks Ago</b> | <b>Three Weeks Ago</b> |
| <b>Bulls</b>                                     | 34.9%            | 35.9%                | 36.8%                  |
| <b>Bears</b>                                     | 29.5%            | 35.2%                | 41.9%                  |
| <b>Neutral</b>                                   | 35.6%            | 28.9%                | 21.4%                  |

|                          | <b>Current</b> | <b>1-month Prior</b> | <b>3-months Prior</b> | <b>6-months Prior</b> | <b>1-Year Prior</b> | <b>Year-End 2009</b> | <b>Year End 2008</b> | <b>Year End 2007</b> |
|--------------------------|----------------|----------------------|-----------------------|-----------------------|---------------------|----------------------|----------------------|----------------------|
| <b>1-Year Adjustable</b> | 3.68%          | 3.74%                | 3.92%                 | 3.97%                 | 5.23%               | 5.65%                | 5.65%                | 5.11%                |
| <b>15-Year Mortgage</b>  | 4.46%          | 4.56%                | 4.53%                 | 4.85%                 | 4.85%               | 5.07%                | 5.12%                | 5.38%                |
| <b>30-Year Mortgage</b>  | 5.08%          | 5.06%                | 4.97%                 | 5.29%                 | 5.25%               | 5.26%                | 5.30%                | 5.57%                |

| <b>Pertinent Weekly Financial Data</b>       |                            |                            |                            |                           |                                  |                                  |  |
|--|----------------------------|----------------------------|----------------------------|---------------------------|----------------------------------|----------------------------------|--|
|  | <b>Feb 26<sup>th</sup></b> | <b>Feb 19<sup>th</sup></b> | <b>Feb 12<sup>th</sup></b> | <b>Feb 5<sup>th</sup></b> | <b>Dec 31<sup>st</sup>, 2009</b> | <b>Dec 31<sup>st</sup>, 2008</b> |  |
| <b>NYSE Total Issues</b>                     | 3237                       | 3229                       | 3232                       | 3231                      | 3219                             |                                  |  |
| <b>NYSE Advancing Stocks</b>                 | 1664                       | 2599                       | 2238                       | 1109                      | 1214                             |                                  |  |
| <b>NYSE Declining Stocks</b>                 | 1514                       | 587                        | 937                        | 2061                      | 1947                             |                                  |  |
| <b>NYSE Unchanged Stocks</b>                 | 59                         | 43                         | 57                         | 61                        | 58                               |                                  |  |
| <b>NYSE New Highs</b>                        | 426                        | 342                        | 129                        | 190                       | 592                              |                                  |  |
| <b>NYSE New Lows</b>                         | 11                         | 7                          | 26                         | 35                        | 5                                |                                  |  |
| <b>NYSE Total Weekly Volume</b>              | 5,422,460                  | 4,168,899                  | 5,732,125                  | 6,279,232                 | 2,668,023                        |                                  |  |
| <b>NASDAQ Total Issues</b>                   | 2918                       | 2920                       | 2917                       | 2923                      | 2941                             |                                  |  |
| <b>NASDAQ Advancing Stocks</b>               | 1303                       | 2022                       | 1977                       | 1042                      | 1253                             |                                  |  |
| <b>NASDAQ Declining Stocks</b>               | 1552                       | 821                        | 877                        | 1820                      | 1614                             |                                  |  |
| <b>NASDAQ Unchanged Stocks</b>               | 63                         | 77                         | 63                         | 61                        | 74                               |                                  |  |
| <b>NASDAQ New Highs</b>                      | 261                        | 236                        | 117                        | 107                       | 333                              |                                  |  |
| <b>NASDAQ New Lows</b>                       | 41                         | 28                         | 75                         | 90                        | 43                               |                                  |  |
| <b>NASDAQ Total Weekly Volume</b>            | 10,945,454                 | 8,321,788                  | 10,745,650                 | 12,767,474                | 5,038,818                        |                                  |  |
| <b>Unleaded Gasoline Prices Per Gallon</b>   | \$2.655                    | \$2.608                    | \$2.652                    | \$2.661                   | \$2.607                          | \$1.613                          |  |
| <b>West Texas Intermediate Crude Futures</b> | \$79.66                    | \$79.81                    | \$74.13                    | \$71.19                   | \$79.36                          | \$44.60                          |  |
| <b>Natural Gas Futures Per mm BTU</b>        | \$4.813                    | \$5.044                    | \$5.468                    | \$5.515                   | \$5.572                          | \$5.622                          |  |
| <b>Copper Futures Per Pound</b>              | \$3.28                     | \$3.38                     | \$3.10                     | \$2.86                    | \$3.35                           | \$1.41                           |  |
| <b>Soybean Futures Per Bushel</b>            | \$9.61                     | \$9.54                     | \$9.54                     | \$9.14                    | \$10.48                          | \$9.80                           |  |
| <b>Corn Per Bushel</b>                       | \$3.89                     | \$3.72                     | \$3.73                     | \$3.52                    | \$4.15                           | \$4.07                           |  |
| <b>Price of Gold Per Ounce</b>               | \$1118.90                  | \$1122.10                  | \$1090.00                  | \$1052.80                 | \$1096.20                        | \$884.30                         |  |
| <b>Price of Silver Per Ounce</b>             | \$16.52                    | \$16.44                    | \$15.45                    | \$14.83                   | \$16.85                          | \$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 gasoline was \$3.05. At the close of 2008, the average price of a gallon of gasoline was \$1.78.

| <b>Value of U.S. Dollar versus the World's Other Major Currencies (Bloomberg.com). Dollars to buy one...</b> |                                  |                                  |                                  |                                 |                                  |                                  |                                  |
|--|----------------------------------|----------------------------------|----------------------------------|---------------------------------|----------------------------------|----------------------------------|----------------------------------|
|  | <b>Feb 26<sup>th</sup>, 2010</b> | <b>Feb 19<sup>th</sup>, 2010</b> | <b>Feb 12<sup>th</sup>, 2010</b> | <b>Feb 5<sup>th</sup>, 2010</b> | <b>Dec 31<sup>st</sup>, 2009</b> | <b>Dec 31<sup>st</sup>, 2008</b> | <b>Dec 28<sup>th</sup>, 2007</b> |
| <b>US \$ Index (DX-Y.NYB)</b>  | 80.362                           | 80.549                           | 80.218                           | 80.202                          | 77.860                           |                                  |                                  |
| <b>Euro</b>  | 1.3632                           | 1.3613                           | 1.3632                           | 1.3678                          | 1.4324                           | 1.3978                           | 1.4724                           |
| <b>British Pound</b>   | 1.5238                           | 1.5472                           | 1.5702                           | 1.5641                          | 1.6151                           | 1.4648                           | 1.9966                           |
| <b>Japanese Yen</b>  | 0.0112                           | 0.0109                           | 0.0111                           | 0.0112                          | 0.0107                           | 0.0110                           | 0.0089                           |
| <b>Canadian Dollar</b>   | 0.9508                           | 0.9623                           | 0.9521                           | 0.9331                          | 0.9499                           | 0.8170                           | 1.0186                           |
| <b>Swiss Franc</b>   | 0.9315                           | 0.9297                           | 0.9298                           | 0.9323                          | 0.9660                           | 0.9350                           | 0.8880                           |

| <b>First Call/Thomson Financial Projected 2009 Earnings &amp; Price to Earnings Ratios For Dow Jones Industrial Average. (Barron's MW 49)</b> |                            |                            |                            |                           |                            |                            |                            |
|---|----------------------------|----------------------------|----------------------------|---------------------------|----------------------------|----------------------------|----------------------------|
|   | <b>Feb 26<sup>th</sup></b> | <b>Feb 19<sup>th</sup></b> | <b>Feb 12<sup>th</sup></b> | <b>Feb 5<sup>th</sup></b> | <b>Jan 22<sup>nd</sup></b> | <b>Jan 15<sup>th</sup></b> | <b>Dec 31<sup>st</sup></b> |
| <b>Projected Earnings</b>   | \$786.24                   | \$785.71                   | \$786.70                   | \$786.02                  | \$641.12                   | \$640.89                   | \$640.51                   |
| <b>P/E Ratio</b>  | 13.1                       | 13.2                       | 12.9                       | 12.7                      | 16.2                       | 16.7                       | 16.5                       |

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

| <i>Industry</i>               | <i>Dec 31<sup>st</sup>, 2009</i> |       | <i>Sept 30<sup>th</sup>, 2009</i> | <i>June 30<sup>th</sup>, 2009</i> | <i>Mar 31<sup>st</sup>, 2009</i> | <i>Dec 31<sup>st</sup>, 2008</i> | <i>Dec 31<sup>st</sup>, 2007</i> | <i>Dec 31<sup>st</sup>, 2006</i> |
|-------------------------------|----------------------------------|-------|-----------------------------------|-----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| <i>Financials</i>             | 14.88%                           | -0.49 | 15.37%                            | 14.02%                            | 11.68%                           | 13.86%                           | 21.04%                           | 20.90%                           |
| <i>Information Technology</i> | 19.36%                           | +1.11 | 18.25%                            | 18.02%                            | 17.77%                           | 15.17%                           | 14.69%                           | 15.08%                           |
| <i>Industrials</i>            | 10.82%                           | +0.13 | 10.69%                            | 10.54%                            | 10.30%                           | 11.50%                           | 11.58%                           | 12.27%                           |
| <i>Health Care</i>            | 12.61%                           | -0.56 | 13.17%                            | 13.84%                            | 14.66%                           | 14.54%                           | 11.86%                           | 11.99%                           |
| <i>Consumer Discretionary</i> | 10.13%                           | +0.31 | 9.82%                             | 9.66%                             | 9.49%                            | 8.94%                            | 11.08%                           | 10.72%                           |
| <i>Energy</i>                 | 10.86%                           | -0.13 | 10.99%                            | 11.64%                            | 12.23%                           | 12.47%                           | 9.81%                            | 10.14%                           |
| <i>Consumer Staples</i>       | 10.47%                           | -0.45 | 10.92%                            | 11.04%                            | 11.81%                           | 11.95%                           | 8.82%                            | 8.76%                            |
| <i>Utilities</i>              | 3.94%                            | 0.00  | 3.94%                             | 4.31%                             | 4.49%                            | 4.56%                            | 4.11%                            | 3.79%                            |
| <i>Basic Materials</i>        | 3.85%                            | +0.10 | 3.75%                             | 3.57%                             | 3.66%                            | 3.24%                            | 3.42%                            | 3.28%                            |
| <i>Telecom Services</i>       | 2.88%                            | -0.01 | 2.89%                             | 3.16%                             | 3.65%                            | 3.44%                            | 3.36%                            | 2.94%                            |

**Sector Performance Week Ending Feb 26<sup>th</sup> v. Week Ending Feb 19<sup>th</sup> v. Feb 12<sup>th</sup>**

|                          | <b>Trailing Week</b> | <b>Year-to-Date</b> | <b>Trailing Twelve Months</b> |
|--------------------------|----------------------|---------------------|-------------------------------|
| <b>Pos/Neg Last Week</b> | 42 / 56              | 53 / 45             | 96 / 2                        |
| <b>Pos/Neg Last Week</b> | 96 / 2               | 56 / 42             | 96 / 2                        |
| <b>Pos/Neg Last Week</b> | 83 / 15              | 26 / 72             | 94 / 4                        |

**Dow Jones U.S. Total Market Industry Groups for the Week Ended February 26<sup>th</sup> (Barron's MW 49)**

| <b>Past Week Top Performing Industry Groups</b> |                            |        |     | <b>Past Week Worst Performing Industry Groups</b> |                                    |        |     |
|---|----------------------------|--------|-----|---|------------------------------------|--------|-----|
| 1   | Recreational Services      | +5.21% | CS  | 98  | Business Training                  | -3.92% | IND |
| 2   | Footwear                   | +4.95% | CG  | 97  | Consumer Electronics               | -3.83% | CG  |
| 3   | Transportation Services    | +4.47% | IND | 96  | Tires                              | -3.49% | CG  |
| 4   | Home Improvement Retailers | +3.61% | CS  | 95  | Home Construction                  | -3.21% | CG  |
| 5   | Apparel Retailers          | +3.60% | CS  | 94  | Travel & Tourism                   | -3.19% | CS  |
| 6   | Automobiles                | +3.59% | CG  | 93  | Nonferrous Metals                  | -3.12% | BM  |
| 7   | Trucking                   | +3.02% | IND | 92  | Oil Equipment & Services           | -3.02% | O&G |
| 8   | Delivery Services          | +2.80% | IND | 91  | Heavy Construction                 | -2.93% | IND |
| 9   | Health Care Providers      | +2.54% | HC  | 90  | Mobile Telecom                     | -2.90% | TEL |
| 10  | Auto Parts                 | +2.47% | CG  | 89  | Oil & Gas Exploration & Production | -2.43% | O&G |

**Dow Jones U.S. Total Market Industry Groups for the Week Ended February 19<sup>th</sup> (Barron's MW 45)**

| <b>Past Week Top Performing Industry Groups</b> |                              |        |      | <b>Past Week Worst Performing Industry Groups</b> |                       |        |      |
|---|------------------------------|--------|------|---|-----------------------|--------|------|
| 1   | Steel                        | +9.62% | BM   | 98  | Gambling              | -0.62% | CS   |
| 2   | Travel & Tourism             | +8.23% | CS   | 97  | Home Construction     | -0.06% | CG   |
| 3   | Mobile Telecom               | +7.98% | TEL  | 96  | Specialty Finance     | +0.86% | FINL |
| 4   | Paper                        | +7.60% | BM   | 95  | Fixed Line Telecom    | +0.925 | TEL  |
| 5   | Mortgage Finance             | +6.44% | FINL | 94  | Health Care Providers | +1.67% | HC   |
| 6   | Heavy Construction           | +6.36% | IND  | 93  | Recreational Products | +1.76% | CG   |
| 7   | Industrial Machinery         | +6.24% | IND  | 92  | Pharmaceuticals       | +1.775 | HC   |
| 8   | Waste & Disposal Services    | +5.95% | IND  | 91  | Broadline Retailers   | +1.91% | CS   |
| 9   | Brewers                      | +5.78% | CG   | 90  | Medical Supplies      | +1.94% | HC   |
| 10  | Food Retailers & Wholesalers | +5.74% | CS   | 89  | Restaurants & Bars    | +1.97% | CS   |

**Dow Jones U.S. Total Market Industry Groups for the Week Ended February 12<sup>th</sup> (Barron's MW 49)**

| <b>Past Week Top Performing Industry Groups</b> |                            |         |      | <b>Past Week Worst Performing Industry Groups</b> |                               |        |      |
|---|----------------------------|---------|------|---|-------------------------------|--------|------|
| 1   | Airlines                   | +10.00% | CS   | 98  | Brewers                       | -5.19% | CG   |
| 2   | Consumer Electronics       | +9.37%  | CG   | 97  | Real Estate Investment Trusts | -1.28% | FINL |
| 3   | Home Construction          | +7.34%  | CG   | 96  | Specialized Consumer Services | -1.02% | CS   |
| 4   | Commercial Vehicles        | +4.13%  | IND  | 95  | Banks                         | -0.81% | FINL |
| 5   | Coal                       | +6.92%  | BM   | 94  | Electricity                   | -0.64% | UTIL |
| 6   | Tobacco                    | +5.82%  | CG   | 93  | Insurance Brokers             | -0.44% | FINL |
| 7   | Platinum & Precious Metals | +5.79%  | BM   | 92  | Paper                         | -0.40% | BM   |
| 8   | Nonferrous Metals          | +5.17%  | BM   | 91  | MultiUtilities                | -0.39% | UTIL |
| 9   | Steel                      | +5.08%  | BM   | 90  | Diversified Industrials       | -0.36% | IND  |
| 10  | Semiconductors             | +5.03%  | TECH | 89  | Specialty Finance             | -0.36% | FINL |

**Dow Jones U.S. Total Market Industry Groups or the Week Ended February 26<sup>th</sup> (Barron's MW 49)**

|    |    | Past Week         |        | Year-to-Date |                   | Trailing 12 Months |                   |             |         |
|----|----|-------------------|--------|--------------|-------------------|--------------------|-------------------|-------------|---------|
| 1  | +2 | Financials        | +1.16% | +2           | Consumer Services | +2.17%             | Basic Materials   | +91.32%     |         |
| 2  | +3 | Consumer Services | +0.66% | -1           | Consumer Goods    | +1.75%             | Financials        | +71.82%     |         |
| 3  | +6 | Health Care       | -0.18% | +2           | Financials        | +1.52%             | Technology        | +66.98%     |         |
| 4  | -2 | Industrials       | -0.43% | -2           | Industrials       | +1.43%             | Industrials       | +64.04%     |         |
| 5  | +2 | Technology        | -0.75% | -1           | Health Care       | +0.93%             | Consumer Services | +57.63%     |         |
| 6  | +2 | Consumer Goods    | -0.77% |              | Basic Materials   | -1.47%             | Consumer Goods    | +43.32%     |         |
| 7  | +3 | Telecom           | -0.85% |              | Oil & Gas         | -2.79%             | +1                | Health Care | +33.09% |
| 8  | -7 | Basic Materials   | -1.56% |              | Technology        | -4.21%             | -1                | Oil & Gas   | +26.69% |
| 9  | -5 | Utilities         | -1.74% |              | Utilities         | -5.31%             |                   | Utilities   | +17.31% |
| 10 | -4 | Oil & Gas         | -2.30% |              | Telecom           | -10.27%            |                   | Telecom     | +7.47%  |

**Dow Jones U.S. Total Market Industry Groups or the Week Ended February 19<sup>th</sup> (Barron's MW 45)**

|    |    | Past Week         |        | Year-to-Date |                   | Trailing 12 Months |    |                   |         |
|----|----|-------------------|--------|--------------|-------------------|--------------------|----|-------------------|---------|
| 1  |    | Basic Materials   | +5.02% |              | Consumer Goods    | +2.73%             |    | Basic Materials   | +82.90% |
| 2  | +4 | Industrials       | +4.51% | +2           | Industrials       | +2.15%             | +1 | Financials        | +79.95% |
| 3  | +6 | Financials        | +4.01% |              | Consumer Services | +1.52%             | -1 | Technology        | +64.90% |
| 4  | +6 | Utilities         | +3.67% | -2           | Health Care       | +1.30%             | +1 | Industrials       | +53.95% |
| 5  |    | Consumer Services | +3.44% |              | Financials        | +0.47%             | -1 | Consumer Services | +51.52% |
| 6  | -2 | Oil & Gas         | +3.41% | +1           | Basic Materials   | +0.46%             |    | Consumer Goods    | +38.44% |
| 7  | -4 | Technology        | +2.99% | -1           | Oil & Gas         | -0.15%             | +1 | Oil & Gas         | +26.24% |
| 8  | -6 | Consumer Goods    | +2.91% |              | Technology        | -3.25%             | -1 | Health Care       | +22.60% |
| 9  | -2 | Health Care       | +2.11% |              | Utilities         | -3.62%             | +1 | Utilities         | +13.95% |
| 10 | -2 | Telecom           | +1.43% |              | Telecom           | -9.22%             | -1 | Telecom           | +11.71% |

**Dow Jones U.S. Total Market Industry Groups or the Week Ended February 12<sup>th</sup> (Barron's MW 49)**

|    |    | Past Week         |        | Year-to-Date |                   | Trailing 12 Months |    |                   |         |
|----|----|-------------------|--------|--------------|-------------------|--------------------|----|-------------------|---------|
| 1  |    | Basic Materials   | +3.21% | +1           | Consumer Goods    | -0.05%             |    | Basic Materials   | +59.54% |
| 2  | +1 | Consumer Goods    | +2.01% | -1           | Health Care       | -0.80%             | +1 | Technology        | +48.19% |
| 3  | -1 | Technology        | +1.87% | +1           | Consumer Services | -1.85%             | -1 | Financials        | +45.08% |
| 4  |    | Oil & Gas         | +1.70% | +1           | Industrials       | -2.26%             |    | Consumer Services | +40.15% |
| 5  | +2 | Consumer Services | +1.61% | -2           | Financials        | -3.40%             |    | Industrials       | +35.89% |
| 6  | -1 | Industrials       | +1.38% |              | Oil & Gas         | -3.44%             |    | Consumer Goods    | +30.27% |
| 7  | +1 | Health Care       | +0.42% | +1           | Basic Materials   | -4.34%             |    | Health Care       | +16.25% |
| 8  | -2 | Telecom           | +0.14% | +1           | Technology        | -6.02%             |    | Oil & Gas         | +14.30% |
| 9  |    | Financials        | -0.05% | -2           | Utilities         | -7.03%             |    | Telecom           | +4.93%  |
| 10 |    | Utilities         | -0.59% |              | Telecom           | -10.43%            |    | Utilities         | +3.20%  |

## Economic Releases

Majority of Economic Data found at [www.haver.com](http://www.haver.com)

### Friday, February 26<sup>th</sup>

**SALES OF EXISTING HOMES** fell 7.2% during January to an annualized rate of 5.050 million units from 5.440 million units during December as the weather negatively impacted sales. Sales of Existing Homes have now risen 11.5% over the past twelve months. The **inventory of unsold homes** rose to 7.8 months during January while the **inventory of unsold single-family homes** rose to 7.6 months. Finally, the **median existing-home sales price** fell by \$5,800 or 3.40% to \$164,700 during January from \$170,500 during December and are now unchanged over the past year. The recent decline in the median existing home sales price has helped pushed home affordability up by approximately 2/3 from the 2006 low.

The Commerce Department reported that **FOURTH QUARTER GROSS DOMESTIC PRODUCT**, a tally of the output of all goods and services in the United States, **WAS REVISED** upward to an annualized growth rate of 5.9% from an initially reported 5.7%. Q3 GDP rose by 2.2%. Inventory restocking was the main reason for the upward revision as it had a positive 3.9% impact on GDP versus an initial 3.4%. This increase marks the first time since 2007 that GDP rose for two consecutive quarters, increases that broke the string of four consecutive declines, the longest such stretch since 1947. , **Domestic final demand** moderated to an annual pace of 1.6% during Q4 from 1.7% initially reported. The **PCE Chained GDP Price Index** was revised downward to 0.4% from an initially reported 0.6% (0.7% y/y).

The University of Michigan reported that **FINAL FEBRUARY READING OF CONSUMER SENTIMENT** slipped to 73.6% from a preliminary February 73.7% and from a final January report of 74.4%. The **expectations component** rose to 68.4% from a mid-month level of 66.9% and from 70.1% at the end of January. Finally, the final February **current conditions component** fell to 81.8% from 84.1% during the middle of February and from a final January level of 81.1%. *Of note and what we believe is having and will most likely continue to have a substantial negative impact on the labor market as well as consumer expectations is the fact that contained within this report is that only 16.0% of respondents that that a good job was being done by the government, this in contrast to the 40% who thought a poor job was being done, the latter marking a twelve month high.*

### Thursday, February 25<sup>th</sup>

**ORDERS FOR DURABLE GOODS** (those expected to last at least three years) rose 3.0% during January, this after rising 1.6% one month prior. Over the past year, Orders for Durable Goods have risen 10.2%. **Excluding transportation, orders for durable goods** fell 0.6%, this after rising 2.0% during December. Over the past year, they have risen 8.6% y/y. Finally, **inventories** fell for the thirteenth consecutive month, during January as did **shipments**.

**INITIAL CLAIMS FOR UNEMPLOYMENT BENEFITS** for the week ended February 20<sup>th</sup> rose 22,000 to 496,000 from 474,000 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 increased by 6,000 to 473,750 from a revised level of 467,750 one week prior. Continuing claims for the week ended February 13<sup>th</sup> rose 6,000 to 4,617,000 from 4,611,000 the prior week. The continuing claims four-week average increased 4,250 to 4.600 from 4.596 million.

### Wednesday, February 24<sup>th</sup>

The Commerce Department reported that **SALES OF NEW HOMES** fell 39,000 or by 11.2% during January to an annualized rate of 309,000 units from a revised 348,000 (orig. 342,000) during December, a slide that should have been halted by the recent extension of the government's homebuyers' tax credit but was probably not due to the poor weather nationwide. Sales of New Homes have fallen 6.1% y/y and by nearly 75% since the peak in July of 2005 and are at their lowest levels in fifty years. The **length of time it would take to sell the current inventory of unsold homes** rose to 9.1 months from 8.1 months, down from 12.4 months recorded during January 2009. The **median price of a new home** fell 5.61% during December to \$203,500 from \$215,600 during November, but have nonetheless fallen 3.6% from over the past year. Of note, the **S&P CASE-SHILLER HOME PRICE INDEX**, an index of twenty metropolitan markets, rose by 0.3% during December to 145.90 (January 2000 = 100), the fourth consecutive monthly increase. However, despite this, the index remains down 3.1% y/y.

### Tuesday, February 23<sup>rd</sup>

The **CONFERENCE BOARD'S CONSUMER CONFIDENCE INDEX** plunged 18.6% to 46.0 during February from a level of 55.9 during January, its' lowest level since last April. The **present situation** index fell to 19.4 from 25.2 while the **expectations index** fell to 63.8 from 77.3. Those surveyed that said that **jobs are "hard to get"** increased to 47.7% from 46.5% while those claiming that **jobs are "plentiful"** fell to 3.6% from 4.4%. Those **expecting business conditions to improve** decreased to 16.7% from 20.7% in January. Of note, was the increase of respondents claiming that **business conditions are bad** to 46.3% from 44.7% as well as the move to 6.2% from 8.5% of the respondents that are claiming **business conditions are good**.

### Friday, February 19<sup>th</sup>

Prices at the retail level as represented by the **CONSUMER PRICE INDEX** rose 0.2% during January, this after rising 0.1% during December. Over the past year the CPI has risen 2.7%, this following calendar year 2008 when the CPI rose just 0.1%. The y/y decrease four months ago had been 1.9%, the steepest drop since 1950. The **core CPI**, which is represented by the CPI excluding food and energy, fell 0.1% during January, this after rising 0.1% during December. The drop was the first for the core CPI since 1982. Over the last twelve months, the core-PPI has risen 1.5%, below the 1.8% increase recorded during 2008. Finally, the **chained CPI**, which measures inflation, but adjusts for shift in the mix of consumer purchases, rose 0.4% in January and by 3.6% y/y while the **core chained CPI** fell 0.0% in January, but has risen 1.5% over the trailing twelve months.

### Thursday, February 18<sup>th</sup>

The Conference Board reported that its **INDEX OF LEADING ECONOMIC INDICATORS** rose by 0.3% during January, this comes on the heels of an upwardly revised gain of 1.2% during December. The index has risen during each of the past ten months and by 9.8% over just the past six. Five of the ten components rose, including, in order, the interest rate spread, the index of supplier deliveries (vendor performance), average weekly manufacturing hours, stock prices and the index of consumer expectations. Subtracting from the index in order from largest to smallest negative contributor was real money supply, average weekly initial claims for unemployment insurance (inverted), building permits and manufacturers' new orders for non-defense capital goods. According to Ataman Ozyildirim, Economist at the Conference Board, "the U.S. LEI has risen steadily for nearly a year, led by an improvement in financial markets and a manufacturing upturn. Consumer expectations and housing permits have also contributed to these gains over this period, but to a lesser extent – especially in recent months."

Prices at the wholesale level as measured by the **PRODUCER PRICE INDEX** jumped 1.2% during January as energy costs screamed 5.1% (21.5% y/y) higher and food costs rose 0.4% (1.5% y/y). Gasoline 10.4% (69.5% y/y), fuel oil 11.0% (28.4% y/y) and natural gas prices 2.4% (-12.5% y/y) also rose. Over the past year the PPI has risen 5.0%. Excluding food and energy, the so-called **core PPI** remained rose 0.3% during January, was flat during December and has risen just 1.0% y/y.

### Wednesday, February 17<sup>th</sup>

**INDUSTRIAL PRODUCTION**, a measure of strength of the manufacturing, factory and utility sectors, rose by 0.9% during January, the fifth consecutive monthly gain, as the demand for consumer goods rose 1.1%. Prior to these increases Industrial Production had fallen every month since December 2006. Year-Over-Year Industrial Production has risen 1.1%, rebounding 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 72.6% from 71.9% while utilization in the factory sector held steady at 69.4% during January, but has fallen from a near 80% peak back in 2007.

**U.S. Import Prices** surged 1.1% during January, this after remaining unchanged during December, which in turn ended what had been seven increases over the past eight months as petroleum costs rose 4.8% and have nearly doubled over the past year. Import Prices have risen 11.5% y/y. **Export prices** rose 0.8% in January and by 3.4% y/y. **Agricultural export prices** rose 1.4% during January and by 4.5% y/y while **Non-Agricultural Export Prices** rose 0.7% during January and by 3.3% y/y.

The Commerce Department reported that **HOUSING STARTS** rose by 16,000 during January to 591,000 from 575,000 one month prior. 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 1.47% or 7,000 to 484,000 in January from 477,000 in December. From the peak during January 2006, single family housing starts have fallen by more than 75%. **Multi-family** housing starts held edged up 9,000 to 107,000 during January. **SINGLE FAMILY BUILDING PERMITS**, a preview of future housing starts, slipped 4.9% to 621,000 in January from 653,000 one month prior, but have risen 16.9% y/y. According to MarketWatch, "for all of 2009, an estimated 554,000 homes were started, down 39% from 2008's total and the lowest on record. Starts of single-family homes dropped 29% to a record-low 444,000 in 2009."

### Friday, February 12<sup>th</sup>

**RETAIL SALES** rebounded 0.5% during January, this after a revised 0.1% drop (orig. -0.3%) recorded during December, in line with the consensus estimate. Over the past year Retail Sales have risen 4.7%. Of note was the 1.6% (+12.4% y/y) increase in **catalogue and internet purchases**. **EXCLUDING AUTOMOBILES AND GASOLINE** and perhaps illustrative of the tendency of the consumer to truly spend, Retail Sales rose 0.6% during January (2.0% y/y) while **excluding autos**, they rose 0.6% (+4.6% y/y).

**BUSINESSES INVENTORIES** fell 0.2% during December, thus ending two consecutive months of fractional gains, which incidentally had come after a string of thirteen consecutive contractions. According to the Associated Press, "the 13 consecutive declines in overall inventories was the longest stretch of weakness since a record 15 straight drops during a period that covered the last recession in 2001. But the total decline of 13.9% in the current slump is larger than the 7.6% drop that occurred during the last slowdown." This pace of inventory reduction has not been witnessed since 1980 and perhaps signaling that when the economy just stabilizes businesses will have to ramp up production. In fact, **BUSINESS SALES** rose 0.9%, the sixth increase over the past seven months. The combination of declining inventories and rising sales pushed the **INVENTORY-TO-SALES RATIO** to 1.26 months from 1.28 months, historically a very low level.

### Wednesday, February 10<sup>th</sup>

The **U.S. Trade Deficit** during December widened 10.45% to \$40.2 billion from \$36.4 billion during November as the value of **imports** rose 4.8%, due to a rebounding U.S. economy as well as higher energy prices. The consensus estimate projected the deficit to slip to \$35.5 billion. Oil rose to \$73.20/bbl during December from \$72.54/bbl during November and has risen from a cycle low of \$39.22/bbl recorded this past February. The increase in the deficit was also exacerbated by the 14.3% (-17.5% y/y) rise in the quantity of petroleum imports during December as well as the 3.3% (+3.3% y/y) rise in non-oil imports, its' fifth increase in the past six months. **Imports** rose 4.8% during December to \$182.9 billion from \$174.5 billion while **exports** rose 3.3% to \$142.7 billion from \$138.1 billion. The increase in the trade deficit is reflective of strengthening economies both here and abroad.

### Friday, February 4<sup>th</sup>

**NON-FARM PAYROLLS** fell by 20,000 during the month of January, a slight disappointment for many which had expected an actual increase in payrolls of 13,000. Since the recession began in December 2007 employers have shed nearly 8.4 million workers while **private sector employment** has fallen to its lowest level since 1998. The **UNEMPLOYMENT RATE** fell to 9.7% from 10.0% as this is calculated from a separate household survey which saw job gains of 541,000 the most in nearly five years. 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 16.5% during January, down from 17.3% one month prior. The **labor force participation rate** remained steady at around 64.7% during January, a twenty-three year low. **Average hourly earnings** rose by \$0.05 to \$18.89 from \$18.84 while over the past year, AHE have risen 2.5%. **Hours worked** rose to 33.3 from 33.2, slightly off a series low 33.0 hours recorded during November. The combination pushed **average weekly earnings** up \$3.55 or 0.57% to \$629.04 from \$625.49. Average weekly earnings have risen by 2.5% 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 consistent gains while the average workweek is near historic lows, capacity utilization remains low and the unemployment rate remains high.*

The Federal Reserve reported that **CONSUMER CREDIT** fell d \$1.8 billion during December, a record eleventh consecutive monthly decline, since the data began being tracked backed in 1943. It is also the fifteenth decline over the past seventeen months. 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, rose by \$6.8 billion, but over the past twelve months it has fallen 0.7%, the first decline since 1992r 2.8%. Finally, **revolving credit** (credit cards) outstanding fell \$8.5 billion during December, a record fifteen consecutive declines, this according to the Federal Reserve. Over the past year revolving credit has fallen a record 9.5%.

### Thursday, February 4<sup>th</sup>

**FACTORY ORDERS** during the month of December rose by 1.0%, this after rising 1.0% during November while **FACTORY INVENTORIES** fell by 0.1%. This combination of rising orders and falling inventories should at some time result in a pick-up in manufacturing. Finally, this combination pushed the **INVENTORY-TO-SALES RATIO** down to 1.29 months from 1.32 months one month prior, historically a low level.

**FOURTH QUARTER PRODUCTIVITY** slowed to a still blistering 6.2% from 7.2% during the third quarter and a 6.9% increase recorded during Q2. Over the past year Productivity has jumped 3.0%, the strongest jump since 2003. **HOURLY COMPENSATION** rose at an annualized rate of 1.5%, the slowest pace of growth since 1994. Over the past year, Hourly Compensation has risen by just 2.2%. **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 4.4% during Q4 and by 2.8% y/y. 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.

### Wednesday, February 3<sup>rd</sup>

The Institute for Supply Management's **composite index of non-manufacturing (service) sector activity** edged up above the breakeven point to 50.5% during December from 49.8% one month prior. Of note, was the rise in **Employment** (44.6% v. 43.6%) and **New Orders** (54.7% v. 52.0%) as well as the declines in the negatively correlated **Inventory Component** (46.5% v.51.5%), **Backlog of Orders** (45.5% v. 48.0%), and **Imports** (47.0% v. 52.5%). **Employment** rose slightly (44.6% v. 43.6%) as did the **Prices Paid Component** (61.2% v. 59.6%).

### Monday, February 1<sup>st</sup>

The Institute for Supply Management's **composite index of manufacturing sector activity** rose to 58.4% during January from 54.9% during November and in so doing notched its highest level since April 2004. The ISM hit a low of 32.9% during December 2008. Generally speaking, "a reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting." Of note was the jump in the **New Orders** (65.9% v 64.8%); **Production** (66.2% v. 59.7%); **Imports** (56.5% v. 55.0%); **Exports** (58.5% v. 54.5%); and **Employment** (53.3% v. 50.2%). An inversely correlated component, **Customers' Inventories** fell to 32.0% from 35.0%, an indication that inventories are too low. Finally, the **Prices Paid Component** surged to 70.0% v. 61.5%).

The Bureau of Economic Analysis reported that **PERSONAL INCOME** rose 0.4% during December, matching the gain recorded during November. For all of calendar year 2009, personal incomes have fallen 1.4%, the first such decline on record. **DISPOSABLE PERSONAL INCOME** (personal income less taxes) rose 0.4% during December and by 1.5% during 2009. **PERSONAL CONSUMPTION**, which represents approximately 70% of economic activity, rose 0.2% in December, but fell by 0.4% last year. **PERSONAL SAVINGS** (Disposable Personal Income Less Outlays) rose to 4.8% during December from 4.5% during November. The **PCE CHAIN PRICE INDEX**, one of the Fed's favorite measures of inflation rose 0.1% during December (+2.1% y/y) while the **core PCE Chain Price Index** also rose 0.1% during December and by 1.5% y/y.

**U.S. CONSTRUCTION SPENDING** during December slumped 1.2%, twice the consensus estimate and twice the pace at which it declined during November. Of concern, over the past year Construction Spending has fallen 9.9%. **Private Construction Spending** fell 1.2% in December and by 14.9% y/y while **Private Residential Construction Spending** slipped 2.8% in December and by 10.9% y/y. **Private Nonresidential Construction Spending** rose 0.2% (-27.7% y/y) and finally, **Public Construction** fell 1.2% during December, but has risen 1.3% y/y.

### Friday, January 29<sup>th</sup>

The **EMPLOYMENT COST INDEX**, according to the Department of Labor, a "measure of 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)" rose by 0.4% during the fourth quarter. Over the past year the ECI rose just 1.2%, the slowest pace of growth on record (the series dates back to 1980). The **wages & salaries component** (70% of ECI) rose by 0.5% (1.3% y/y) during the fourth quarter, this following the 0.5% gain during the third quarter. The **cost of benefits** rose by 0.4% over the past quarter, by 0.3% during the third quarter and by just 1.0% over the past twelve months.

## **Economic & Investment Definitions**

### **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.

“Let’s imagine the dollar quickly dropped by a further 25% against each major world currency, roughly parallel to housing’s unprecedented 30% decline. That would mean it would take \$2 to buy a single euro. On the good side, U.S. manufacturers would find it easier to compete globally, and foreign tourism would boom in the U.S. On the bad side, inflation in the U.S. would zoom because of the rising cost of imported products. Americans would have even more trouble getting a loan as foreign buyers pull out of the debt market. Abroad, the cheap dollar would make it harder for other nations to export to the U.S., hurting their growth. China could face social unrest. Trade wars could break out.” (Business Week, *What Happens If The Dollar Crashes*; October 26, 2009)

### **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**

### **2010 Scheduled FOMC Meetings:**

March 16; April 27-28; June 22-23; August 10; September 21; November 2-3; December 14.

### **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 16<sup>th</sup>, 2008. This was the tenth rate cut after the Fed Funds Rate peaked at 5.25% on June 29<sup>th</sup>, 2007.

### **Discount Rate**

The interest rate charged to commercial banks and other depository institutions on loans they receive from the Federal Reserve. Currently at 0.75%. Most recent change was a 25-basis point rate hike on February 18<sup>th</sup>, 2010 intra-meeting. This was the first hike in the Discount Rate since June 29<sup>th</sup>, 2006 when the Fed hiked from 6.00% to 6.25%.

### **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.

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

### **Statement by The Federal Reserve following the Hike in the Discount Rate on February 18<sup>th</sup>, 2010**

The Federal Reserve Board on Thursday announced that in light of continued improvement in financial market conditions it had unanimously approved several modifications to the terms of its discount window lending programs.

Like the closure of a number of extraordinary credit programs earlier this month, these changes are intended as a further normalization of the Federal Reserve's lending facilities. The modifications are not expected to lead to tighter financial conditions for households and businesses and do not signal any change in the outlook for the economy or for monetary policy, which remains about as it was at the January meeting of the Federal Open Market Committee (FOMC). At that meeting, the Committee left its target range for the federal funds rate at 0 to 1/4 percent and said it anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

The changes to the discount window facilities include Board approval of requests by the boards of directors of the 12 Federal Reserve Banks to increase the primary credit rate (generally referred to as the discount rate) from 1/2 percent to 3/4 percent. This action is effective on February 19.

In addition, the Board announced that, effective on March 18, the typical maximum maturity for primary credit loans will be shortened to overnight. Primary credit is provided by Reserve Banks on a fully secured basis to depository institutions that are in generally sound condition as a backup source of funds. Finally, the Board announced that it had raised the minimum bid rate for the Term Auction Facility (TAF) by 1/4 percentage point to 1/2 percent. The final TAF auction will be on March 8, 2010.

Easing the terms of primary credit was one of the Federal Reserve's first responses to the financial crisis. On August 17, 2007, the Federal Reserve reduced the spread of the primary credit rate over the FOMC's target for the federal funds rate to 1/2 percentage point, from 1 percentage point, and lengthened the typical maximum maturity from overnight to 30 days. On December 12, 2007, the Federal Reserve created the TAF to further improve the access of depository institutions to term funding. On March 16, 2008, the Federal Reserve lowered the spread of the primary credit rate over the target federal funds rate to 1/4 percentage point and extended the maximum maturity of primary credit loans to 90 days.

Subsequently, in response to improving conditions in wholesale funding markets, on June 25, 2009, the Federal Reserve initiated a gradual reduction in TAF auction sizes. As announced on November 17, 2009, and implemented on January 14, 2010, the Federal Reserve began the process of normalizing the terms on primary credit by reducing the typical maximum maturity to 28 days.

The increase in the discount rate announced Thursday widens the spread between the primary credit rate and the top of the FOMC's 0 to 1/4 percent target range for the federal funds rate to 1/2 percentage point. The increase in the spread and reduction in maximum maturity will encourage depository institutions to rely on private funding markets for short-term credit and to use the Federal Reserve's primary credit facility only as a backup source of funds. The Federal Reserve will assess over time whether further increases in the spread are appropriate in view of experience with the 1/2 percentage point spread.

### **Statement by The Federal Reserve following the January 27<sup>th</sup>, 2010 Meeting**

Information received since the Federal Open Market Committee met in December suggests that economic activity has continued to strengthen and that the deterioration in the labor market is abating. Household spending is expanding at a moderate rate but remains constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software appears to be picking up, but investment in structures is still contracting and employers remain reluctant to add to payrolls. Firms have brought inventory stocks into better alignment with sales. While bank lending continues to contract, financial market conditions remain supportive of economic growth. Although the pace of economic recovery is likely to be moderate for a time, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability.

With substantial resource slack continuing to restrain cost pressures and with longer-term inflation expectations stable, inflation is likely to be subdued for some time.

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, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, 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 is in the process of purchasing \$1.25 trillion of agency mortgage-backed securities and about \$175 billion of agency debt. In order to promote a smooth transition in markets, the Committee is gradually slowing the pace of these purchases, and it anticipates that these transactions will be executed by the end of the first quarter. The Committee will continue to evaluate its purchases of securities in light of the evolving economic outlook and conditions in financial markets.

In light of improved functioning of financial markets, the Federal Reserve will be closing the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility on February 1, as previously announced. In addition, the temporary liquidity swap arrangements between the Federal Reserve and other central banks will expire on February 1. The Federal Reserve is in the process of winding down its Term Auction Facility -- \$50 billion in 28-day credit will be offered on February 8 and \$25 billion in 28-day credit will be offered at the final auction on March 8. The anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remain set at June 30 for loans backed by new-issue commercial mortgage-backed securities and March 31 for loans backed by all other types of collateral. The Federal Reserve is prepared to modify these plans if necessary to support financial stability and economic growth.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; James Bullard; Elizabeth A. Duke; Donald L. Kohn; Sandra Pianalto; Eric S. Rosengren; Daniel K. Tarullo; and Kevin M. Warsh. Voting against the policy action was Thomas M. Hoening, who believed that economic and financial conditions had changed sufficiently that the expectation of exceptionally low levels of the federal funds rate for an extended period was no longer warranted.

### **Statement by The Federal Reserve following the December 15<sup>th</sup>-16<sup>th</sup>, 2009 Meeting**

Information received since the Federal Open Market Committee met in November suggests that economic activity has continued to pick up and that the deterioration in the labor market is abating. The housing sector has shown some signs of improvement over recent months. Household spending appears to be expanding at a moderate rate, though it remains constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment, though at a slower pace, and remain reluctant to add to payrolls; they continue to make progress in bringing inventory stocks into better alignment with sales. Financial market conditions have become more supportive of economic growth. 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 contribute to 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.

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, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, 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 is in the process of purchasing \$1.25 trillion of agency mortgage-backed securities and about \$175 billion of agency debt. In order to promote a smooth transition in markets, the Committee is gradually slowing the pace of these purchases, and it anticipates that these transactions will be executed by the end of the first quarter of 2010. 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.

In light of ongoing improvements in the functioning of financial markets, the Committee and the Board of Governors anticipate that most of the Federal Reserve's special liquidity facilities will expire on February 1, 2010, consistent with the Federal Reserve's announcement of June 25, 2009. These facilities include the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility. The Federal Reserve will also be working with its central bank counterparties to close its temporary liquidity swap arrangements by February 1. The Federal Reserve expects that amounts provided under the Term Auction Facility will continue to be scaled back in early 2010. The anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remain set at June 30, 2010, for loans backed by new-issue commercial mortgage-backed securities and March 31, 2010, for loans backed by all other types of collateral. The Federal Reserve is prepared to modify these plans if necessary to support financial stability and economic growth.

**Statement by The Federal Reserve following the November 3<sup>rd</sup>-4<sup>th</sup>, 2009 Meeting**

Information received since the Federal Open Market Committee met in September suggests that economic activity has continued to pick up. Conditions in financial markets were roughly unchanged, on balance, over the intermeeting period. Activity in the housing sector has increased over recent months. Household spending appears to be expanding 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, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, 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 about \$175 billion of agency debt. The amount of agency debt purchases, while somewhat less than the previously announced maximum of \$200 billion, is consistent with the recent path of purchases and reflects the limited availability of agency debt. In order to promote a smooth transition in markets, the Committee will gradually slow the pace of its purchases of both agency debt and agency mortgage-backed securities and anticipates that these transactions will be executed by the end of the first quarter of 2010. 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.

**Statement by The Federal Reserve following the March 16<sup>th</sup>-17<sup>th</sup>, 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.

### **Statement by The Federal Reserve following the December 15<sup>th</sup>-16<sup>th</sup>, 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.

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 September 16<sup>th</sup>, 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 16<sup>th</sup>, 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.

## **Limits, Limitations, Data & Dates**

### **Social Security Data ([www.ssa.gov/pressoffice/colafacts2004.htm](http://www.ssa.gov/pressoffice/colafacts2004.htm))**

- |  |                       |
|--|-----------------------|
| • New York Tax Freedom Day for 2009                        | May 5 <sup>th</sup>   |
| • 2010 Social Security Cost of Living Adjustment (COLA)    | 0.0%                  |
| • 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 15<sup>th</sup> 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, 2006. 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**

- 2010 401(k) limits are \$16,500 for individuals under fifty years of age.
- 2010 401(k) limits for over age fifty are an additional \$5,500 as a catch-up provision.
  
- 2010 IRA limits are \$5,000 for individuals under fifty years of age.
- 2010 IRA limits are \$6,000 for individuals over fifty years of age.
  
- 2010 Roth IRA contributions phased out for Joint Filers w/ AGI between \$167,000 and \$177,000.
- 2010 Roth IRA contributions phased out for Individual Filers w/ AGI between \$105,000 and \$120,000.

### **Estate Tax Exclusion Limits**

- 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.)*

| <b>Common Stock &amp; Equity ETF Portfolio Holdings**</b>                 |                              |               |  |  |  |
|---|------------------------------|---------------|--|--|--|
| <b>Ranked by <i>Market Value</i> as of January 31<sup>st</sup>, 2010.</b> |                              |               |  |  |  |
| <b>Percent of Common Stock</b>  | <b>Company Name</b>          | <b>Symbol</b> | <b>As of Jan 31<sup>st</sup>, 2010</b> | <b>As of Dec 31<sup>st</sup>, 2009</b> | <b>As of Nov 30<sup>th</sup>, 2009</b> |
| 6.05%   | Hewlett Packard              | HPQ           | 1                                      | 1                                      | 1                                      |
| 5.16%   | Apple Computer               | AAPL          | 2                                      | 2                                      | 2                                      |
| 4.26%   | General Electric             | GE            | 3                                      | 4                                      | 3                                      |
| 3.82%   | McDonald's Corporation       | MCD           | 4                                      | 5                                      | 5                                      |
| 3.77%   | JP Morgan Chase              | JPM           | 5                                      | 3                                      | 4                                      |
|   |                              |               |  |  |  |
| 3.04%   | MasterCard, Inc.             | MA            | 6                                      | 6                                      | 8                                      |
| 2.97%   | Nike, Inc.                   | NKE           | 7                                      | 8                                      | 7                                      |
| 2.89%   | Exxon Mobil                  | XOM           | 8                                      | 7                                      | 6                                      |
| 2.63%   | Conoco Phillips              | COP           | 9                                      | 9                                      | 9                                      |
| 2.58%   | Intel Corp.                  | INTC          | 10                                     | 10                                     | 11                                     |
|   |                              |               |  |  |  |
| 2.53%   | Pepsico, Inc.                | PEP           | 11                                     | 11                                     | 10                                     |
| 2.41%   | Johnson & Johnson            | JNJ           | 12                                     | 12                                     | 12                                     |
| 2.23%   | S&P 500 ADR's                | SPY           | 13                                     | 13                                     | 13                                     |
| 2.12%   | Cisco Systems, Inc.          | CSCO          | 14                                     | 14                                     | 14                                     |
| 1.73%   | iShares DJ Select Divd Index | DVY           | 15                                     | 15                                     | 17                                     |
|   |                              |               |  |  |  |
| 1.72%   | Ford Motor Company           | F             | 16                                     | 19                                     | 24                                     |
| 1.70%   | Emerson Electric Co.         | EMR           | 17                                     | 16                                     | 15                                     |
| 1.68%   | Pfizer, Inc.                 | PFE           | 18                                     | 17                                     | 16                                     |
| 1.48%   | Celgene Corp.                | CELG          | 19                                     | 18                                     | 18                                     |
| 1.34%   | Bank of America              | BAC           | 20                                     | 20                                     | 19                                     |
|   |                              |               |  |  |  |
| 1.17%   | Foster Wheeler               | FWLT          | 21                                     | 21                                     | 20                                     |
| 1.17%   | Alpha Natural Resources      | ANR           | 22                                     | 23                                     | 27                                     |
| 1.16%   | Mosaic Companies             | MOS           | 23                                     | 22                                     | 28                                     |
| 1.16%   | Diageo, PLC ADRs             | DEO           | 24                                     | 24                                     | 23                                     |
| 1.14%   | Oracle Corporation           | ORCL          | 25                                     | 26                                     | 26                                     |
|   |                              |               |  |  |  |
| 1.13%   | Microsoft Corp.              | MSFT          | 26                                     | 25                                     | 22                                     |
| 1.00%   | Suncor Energy                | SU            | 29                                     | 27                                     | 21                                     |
| 0.94%   | Dell Computer                | DELL          | 32                                     | 28                                     | 25                                     |

*Portfolio Concentration: Top 25 holdings represent 61.92% of the common stock portfolio, as of January 31<sup>st</sup>, 2010.*

| <b>Largest Mutual Fund Holdings as of January 31<sup>st</sup>, 2010.</b> |                                    |   |
|--|------------------------------------|---|
| <b>Domestic Equity Funds</b>   | <b>International Equity Funds</b>  | <b>Hybrid/Fixed Income/ Muni Fund/ETF</b> |
| AF Capital Income Builder  | William Blair International Growth | Payden GNMA Fund                          |
| Schwab 1000 Select Fund  | Tweedy Browne Global Value         | Loomis Sayles Bond Fund                   |
| Baron Asset Fund   | BLDRS Asia 50 ADR Index            | PIMCO Total Return                        |
| Parnassus Equity Income Fund   | Janus Overseas                     | iShares Lehman Bros TIPS                  |
| Marsico Focused Fund   | Harbor International               | MetWest Total Return Bond Fund            |

**Common Stock & Equity ETF Portfolio Holdings\*\***  
**Ranked by *Share Balance* as of January 31<sup>st</sup>, 2010.**

| <b>Notes &amp; Stock Splits;<br/>Avg. Cost Per Share</b> |    |    | <b>Company Name</b>      | <b>Symbol</b> | <b>As of<br/>Jan 31<sup>st</sup>, 2010</b> | <b>As of<br/>Dec 31<sup>st</sup>, 2009</b> | <b>As of<br/>Nov 30<sup>th</sup>, 2009</b> |
|--|----|----|--------------------------|---------------|--|--|--|
| \$23.37  | 1  | 1  | General Electric         | GE            | 119,478                                    | 120,561                                    | 132,817                                    |
| \$7.63   | 2  | 4  | Ford Motor Company       | F             | 71,725                                     | 61,490                                     | 55,495                                     |
| \$19.36  | 3  | 3  | Intel Corporation        | INTC          | 60,041                                     | 59,176                                     | 56,418                                     |
| \$42.87  | 4  | 2  | Hewlett Packard Co.      | HPQ           | 57,981                                     | 59,036                                     | 59,276                                     |
| \$40.17  | 5  | 5  | JP Morgan Chase          | JPM           | 43,594                                     | 45,594                                     | 45,181                                     |
|  |    |    |                          |               |  |  |  |
| \$23.78  | 6  | 6  | Cisco Systems            | CSCO          | 42,633                                     | 41,843                                     | 39,488                                     |
| \$17.40  | 7  | 7  | Pfizer, Inc.             | PFE           | 40,594                                     | 41,234                                     | 41,225                                     |
| \$21.18  | 8  | 8  | Bank of America          | BAC           | 39,729                                     | 40,259                                     | 39,973                                     |
| \$10.40  | 9  | 9  | First Niagara Financial  | FNFG          | 34,381                                     | 34,686                                     | 35,086                                     |
| \$12.16  | 10 | 10 | Dell Computer            | DELL          | 32,840                                     | 34,185                                     | 34,185                                     |
|  |    |    |                          |               |  |  |  |
| \$12.84  | 11 | 13 | Duke Realty Corp.        | DRE           | 28,330                                     | 27,650                                     | 27,520                                     |
| \$14.40  | 12 | 11 | iPath DJ-AIG Natural Gas | GAZ           | 28,225                                     | 28,225                                     | 28,225                                     |
| \$41.69  | 13 | 12 | McDonalds Corp.          | MCD           | 27,603                                     | 27,928                                     | 27,372                                     |
| \$46.05  | 14 | 14 | Conoco Phillips          | COP           | 24,675                                     | 24,515                                     | 24,110                                     |
| \$8.55   | 15 | 15 | TrustCo                  | TRST          | 23,039                                     | 23,011                                     | 22,745                                     |
|  |    |    |                          |               |  |  |  |
| \$13.14  | 16 | 16 | China Green Agriculture  | CGA           | 22,895                                     | 22,970                                     | 20,620                                     |
| \$19.83  | 17 | 17 | Oracle Corporation       | ORCL          | 22,299                                     | 21,964                                     | 21,669                                     |
| \$59.94  | 18 | 18 | Nike, Inc.               | NKE           | 20,977                                     | 20,692                                     | 20,467                                     |
| \$36.68  | 19 | 19 | Exxon Mobil              | XOM           | 20,222                                     | 20,222                                     | 19,407                                     |
| \$63.47  | 20 | 21 | Pepsico, Inc.            | PEP           | 19,103                                     | 19,098                                     | 19,208                                     |
|  |    |    |                          |               |  |  |  |
| \$15.79  | 21 | 22 | SPDR Select Tech         | XLK           | 19,075                                     | 18,955                                     | 19,295                                     |
| \$21.99  | 22 | 20 | Foster Wheeler           | FWLT          | 18,900                                     | 19,470                                     | 19,340                                     |
| \$41.62  | 23 | 25 | Emerson Electric         | EMR           | 18,465                                     | 18,405                                     | 18,120                                     |
| \$23.19  | 24 | 24 | Ebay Inc.                | EBAY          | 18,415                                     | 18,620                                     | 18,410                                     |
| \$49.80  | 25 | 29 | iShrs DJ Dividend Index  | DVY           | 18,276                                     | 17,891                                     | 16,775                                     |
|  |    |    |                          |               |  |  |  |
| \$15.43  | 26 | 23 | Mylan Labs               | MYL           | 18,245                                     | 18,750                                     | 18,750                                     |
| \$28.08  | 27 | 26 | Microsoft Corp.          | MSFT          | 18,030                                     | 17,930                                     | 17,754                                     |

\*\*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.

***“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 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.

## **“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.