

Recap Of The Financial Markets

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Week Ended April 8th, 2011.

Stocks made their way back to near recent highs one week ago and this week, amidst a lack of any real economic news, began to tread water, looking for a catalyst, that, one way or another, will start this week as earnings season kicks off Monday with Alcoa reporting. As we have learned time and time again is that the stock market in the aggregate is an anticipatory mechanism that will outsmart any individual investor. We saw this during March 2009 when stocks made perhaps a generational bottom despite all of the bad news and on a much smaller scale were bid up this week despite seemingly overwhelming bad news. After a near thirty percent run-up off the August 2010 bottom, a correction, whatever the catalyst, was in the cards. At this time, we think that sizable pullbacks that exceed five percent represent buying opportunities as corporate earnings remain strong and until proven otherwise, the Federal Reserve and U.S. Treasury will keep throwing money at the economy in order to avoid a slowdown and subsequent deflationary environment. Investors remain very skeptical pertaining to the move off the bottom that began two years ago as well as pessimistic regarding the economy, two sentiments that seldom result in an ultimate market top.

Index	Weekly Change	Closing Value	% Change Prior Week	Year-to-Date % Change	Trailing 12 Mo. % Change
Dow Jones Ind. Avg.	+3.33	12380.05	+0.03%	+6.93%	+12.57%
S&P 500	-4.24	1328.17	-0.32%	+5.61%	+11.20%
NASDAQ Comp.	-9.18	2780.42	-0.33%	+4.81%	+13.30%
DJ US Mkt. Index	-56.17	14054.65	-0.40%	+5.75%	+12.91%
Russell 2000	-5.88	840.89	-0.69%	+7.30%	+19.62%
Dow Utilities	-1.35	414.45	-0.32%	+2.34%	+7.67%
Dow Transports	-142.17	5228.30	-2.65%	+2.38%	+15.99%

Index	Closing Record High (ex-NDQ)	Date of Closing Record High	% from Prior Record High	March 9 th , 2009 Closing Low	% From Closing Low Mar 9, 2009
Dow Jones Ind. Avg.	14164.53	9-Oct-2007	12.60%	6547.05	89.09%
S&P 500	1565.15	9-Oct-2007	15.14%	676.53	96.32%
NASDAQ Comp	5048.62	10-Mar-2000	44.93%	1268.24	119.23%
DJ US Mkt. Index	15806.69	9-Oct-2007	11.08%	6858.43	104.93%
Russell 2000	855.70	13-July-2007	1.73%	343.26	144.97%
Dow Utilities	552.74	10-Dec-2007	25.02%	290.68	42.58%
Dow Transports	5446.49	19-July-2007	4.01%	2146.89	143.553

Index	Close on Dec 31, 1999	Year End 2007 Close	Year End 2008 Close	Year-End 2009 Close	Year-End 2010 Close
Dow Jones Ind. Avg.	11497.12	13,264.82	8,776.39	10,428.05	11,577.51
S&P 500	1469.25	1,468.36	903.25	1,115.10	1,257.64
NASDAQ Comp.	4069.31	2,652.28	1,577.03	2,269.15	2,652.87
DJ US Mkt. Index	13812.70	14,819.58	9,087.17	11,497.41	13,290.03
Russell 2000	504.75	766.03	499.45	625.39	783.65
Dow Utilities	283.36	532.53	370.76	398.01	404.99
Dow Transports	2977.20	4,570.55	3,537.15	4,099.63	5,106.75

Index	2010 Returns	% from Post Attack Close High	Post-Attack High to March 9 th Closing Low	% From Intra-Day Low May 6, 2010	Intra-Day Low May 6, 2010
Dow Jones Ind. Avg.	11.02%	12.60%	53.78%	26.49%	9,787.17
S&P 500	12.78%	15.14%	56.78%	24.62%	1,065.79
NASDAQ Comp.	16.91%	2.75%	55.64%	27.21%	2,185.75
DJ US Mkt. Index	15.59%	11.08%	56.61%	26.23%	11,134.50
Russell 2000	25.31%	1.73%	59.89%	31.87%	637.69
Dow Utilities	1.75%	25.02%	47.41%	17.44%	352.90
Dow Transports	24.57%	4.01%	60.58%	26.37%	4,137.30

First Call/Thomson Financial Projected 2011 Earnings & Price to Earnings Ratios For Dow Jones Industrial Average. (Barron's MW 49)

	April 8 th	April 1 st	March 25 th	March 18 th	March 11 th	March 4 th	Dec 31 st
Projected Earnings	\$1089.18	\$1082.50	\$1081.53	\$1080.35	\$1077.70	\$1075.47	\$943.01
P/E Ratio	11.4	11.4	11.3	10.9	11.1	11.4	12.3

MARKET INTERNALS							
	Friday	Monday	Tuesday	Wednesday	Thursday	Friday	
Date	Apr 1 st	Apr 4 th	Apr 5 th	Apr 6 th	Apr 7 th	Apr 8 th	
Dow Change	+56.99	+23.31	-6.13	+32.85	-17.26	-29.44	
NYSE Volume	912 mm	765 mm	831 mm	885 mm	911 mm	822 mm	
S&P500 Volatility Index	17.40	17.50	17.25	16.90	17.11	17.87	
NASDAQ Close	2789.60	2789.19	2791.19	2799.82	2796.14	2780.42	
NASDAQ Change	+8.53	-0.41	+2.00	+8.63	-3.68	-15.72	
NASDAQ Volume	2.090 b	1.706 b	1.955 b	1.997 b	1.807 b	1.651 b	
NASDAQ Index (^vxn)	19.41	20.05	19.46	19.32	19.34	19.76	
S&P 500 Close	1332.41	1332.87	1332.63	1335.54	1333.51	1328.17	
S&P 500 Change	+6.58	+0.46	-0.24	+2.91	-2.03	-5.34	
Russell 2000 Close	846.77	849.36	853.31	854.17	849.44	840.89	
Russell 2000 Change	+3.22	+2.59	+3.95	+0.86	-4.73	-8.55	
DJ US Mkt Index Close	14110.82	14120.28	14129.25	14151.80	14120.77	14054.65	
DJ US Mkt Index Change	+74.39	+9.46	+8.97	+22.55	-31.03	-66.12	
Dow High (a)	12419.71	12407.41	12438.14	12450.93	12440.56	12450.36	
Dow Low (a)	12321.02	12369.15	12353.34	12386.66	12328.36	12320.72	
Dow at 10:00 a.m.	12354.55	12386.90	12367.56	12428.91	12436.55	12419.86	
Dow 1 Hour Before Close	12375.40	12387.39	12416.72	12425.08	12389.13	12327.34	
Dow Close	12376.72	12400.03	12393.90	12426.75	12409.49	12380.05	
Variation	98.69	38.26	84.80	64.27	112.20	129.64	
Variation vs. Prior Day Close	0.80%	0.31%	0.68%	0.52%	0.90%	1.04%	
Close Off Low	55.70	30.88	40.56	40.09	81.13	59.33	
Close Off High	42.99	7.38	44.24	24.18	31.07	70.31	
Dow first ½ hr	+34.82	+10.18	-32.47	+35.01	+9.80	+10.37	
Dow Close v. 10:00 am Price	+22.17	+13.13	+26.34	-2.16	-27.06	-39.81	
Dow Last Hour	+1.32	+12.64	-22.82	+1.67	+20.36	+52.71	
NYSE Advances	2107	1577	1655	1736	1137	1013	
NYSE Declines	941	1320	1355	1288	1901	1985	
Unchanged	102	121	133	109	97	129	
New Highs	383	266	284	303	160	164	
New Lows	12	15	14	9	5	11	
NYSE Up Volume	660 mm	381 mm	486 mm	543 mm	385 mm	246 mm	
NYSE Down Volume	228 mm	366 mm	329 mm	327 mm	514 mm	558 mm	
NASDAQ Advances	1455	1374	1334	1527	935	810	
NASDAQ Declines	1161	1194	1276	1097	1658	1809	
Unchanged	115	111	135	109	109	114	
New Highs	250	230	203	211	115	72	
New Lows	27	33	34	21	24	36	
NASDAQ Up Volume	1.036 b	826 mm	1.181 b	1.338 b	683 mm	520 mm	
NASDAQ Down Volume	987 mm	852 mm	739 mm	639 mm	1.106 b	1.101 b	

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

	Apr 8 th , 2011	Apr 1 st , 2011	Mar 25 th , 2011	Mar 18 th , 2011	Dec 31 st , '08	Dec 28 th , '07
3 month T-bill	0.04%	0.06%	0.08%	0.06%	0.08%	3.14%
6 month T-bill	0.11%	0.14%	0.16%	0.13%	0.26%	3.42%
12 month T-bill	0.25%	0.23%	0.26%	0.21%	0.34%	
2 year T-note	0.81%	0.80%	0.73%	0.58%	0.76%	3.11%
3-year Treasury Note	1.31%	1.28%	1.23%	1.04%	0.97%	
5 year Treasury Note	2.31%	2.24%	2.16%	1.94%	1.55%	3.50%
7-year Treasury Note	2.98%	2.89%	2.83%	2.62%		
10 year Treasury Note	3.58%	3.44%	3.44%	3.27%	2.21%	4.08%
30 year Treasury Bond	4.64%	4.49%	4.50%	4.42%	2.68%	4.50%
Current Prime Rate	3.25%	3.25%	3.25%	3.25%	3.25%	7.25%
Current 1-mo LIBOR	0.23%	0.24%	0.25%	0.25%	0.44%	4.63%
Current 3-mo LIBOR	0.29%	0.30%	0.31%	0.31%	1.42%	4.73%
TED-Spread*	25 bps	24 bps	23 bps	25 bps	134 bps	
Spread b/t 10 & 2 Yr. T-Note	277 bps	264 bps	271 bps	269 bps	145 bps	97 bps
1 mo. LIBOR v. Fed Funds	15 bps	14 bps	10 bps	09 bps	19 bps	38 bps

*TED Spread = Diff b/t 3-mo. T-bill and 3-mo. LIBOR

Investor Sentiment (AAII Index, Barron's)			
	Last Week	Two Weeks Ago	Three Weeks Ago
Bulls	43.6%	41.8%	37.8%
Bears	28.9%	31.1%	35.0%
Neutral	27.6%	27.1%	27.3%

	Apr 8th, 2011	Apr 1st, 2011	Mar 25th, 2011	Mar 18th, 2011	Year-End 2010	Year-End 2009	Year End 2008	Year End 2007
5/1 Year ARM	3.50%	3.47%	3.42%	3.37%	3.90%	5.65%	5.65%	5.11%
15-Year Mortgage	4.10%	4.05%	4.02%	4.00%	4.35%	5.07%	5.12%	5.38%
30-Year Mortgage	4.90%	4.84%	4.81%	4.76%	5.02%	5.26%	5.30%	5.57%

Pertinent Weekly Financial Data							
	Apr 8th	Apr 1st	Mar 25th	Dec 31st, 2010	Dec 31st, 2009	Dec 31st, 2008	
NYSE Total Issues	3215	3215	3206	3203	3219		
NYSE Advancing Stocks	1359	2323	2481	1792	1214		
NYSE Declining Stocks	1801	857	667	1350	1947		
NYSE Unchanged Stocks	55	35	58	61	58		
NYSE New Highs	575	525	316	303	592		
NYSE New Lows	34	41	38	41	5		
NYSE Total Weekly Volume	4,214,973	4,497,680	4,289,339	2,648,260	2,668,023		
NASDAQ Total Issues	2836	2841	2841	2859	2941		
NASDAQ Advancing Stocks	1173	1822	2038	1438	1253		
NASDAQ Declining Stocks	1590	964	759	1349	1614		
NASDAQ Unchanged Stocks	73	55	44	72	74		
NASDAQ New Highs	395	376	245	317	333		
NASDAQ New Lows	94	80	96	40	43		
NASDAQ Total Weekly Volume	9,114,928	9,105,390	8,994,645	5,467,858	5,038,818		
Unleaded Gasoline Prices Per Gallon	\$3.684	\$3.596	\$3.562	\$3.052	\$2.607	\$1.613	
West Texas Intermediate Crude Futures	\$112.79	\$107.94	\$105.40	\$91.38	\$79.36	\$44.60	
Natural Gas Futures Per mm BTU	\$4.041	\$4.362	\$4.403	\$4.410	\$5.572	\$5.622	
Copper Futures Per Pound	\$4.50	\$4.26	\$4.42	\$4.45	\$3.35	\$1.41	
Soybean Futures Per Bushel	\$13.96	\$13.94	\$13.58	\$14.03	\$10.48	\$9.80	
Corn Per Bushel	\$7.74	\$7.36	\$6.89	\$6.29	\$4.15	\$4.07	
Price of Gold Per Ounce	\$1474.10	\$1428.90	\$1427.60	\$1421.40	\$1096.20	\$884.30	
Price of Silver Per Ounce	\$40.61	\$37.73	\$37.05	\$30.94	\$16.85	\$11.29	

Oil Equivalents: On average, every \$1.00/bbl rise in oil results in a \$.025/gal rise in gasoline and for every \$.01/gal rise in gasoline, it costs Americans \$1 billion over the course of the following year.

Value of U.S. Dollar versus the World's Other Major Currencies (Bloomberg.com). Dollars to buy one...							
	Apr 8th, 2011	Apr 1st, 2011	Mar 25th, 2011	Year-End 2010	Year-End 2009	Year-End 2008	Year-End 2007
US \$ Index (DX-Y.NYB)	74.85	75.82	76.15	79.61	77.860		
Euro	1.4483	1.4237	1.4088	1.3384	1.4324	1.3978	1.4724
British Pound	1.6383	1.6111	1.6042	1.5612	1.6151	1.4648	1.9966
Japanese Yen	0.0118	0.0119	0.0123	0.0123	0.0107	0.0110	0.0089
Canadian Dollar	1.0467	1.0382	1.0199	1.0020	0.9499	0.8170	1.0186
Chinese Renminbi	0.1530	0.1527	0.1525	0.1514			
Swiss Franc	1.1032	1.0825	1.0871	1.0693	0.9660	0.9350	0.8880

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

<i>Industry</i>	<i>Mar 31st, 2011</i>		<i>Dec 31st, 2010</i>		<i>Sept 30th, 2010</i>		<i>June 30th, 2010</i>		<i>Dec 31st, 2009</i>		<i>Dec 31st, 2008</i>		<i>Dec 31st, 2007</i>	
<i>Financials</i>	16.19%	-0.22	16.41%	14.02%	11.68%	13.86%	21.04%	20.90%						
<i>Information Technology</i>	17.94%	-0.47	18.41%	18.02%	17.77%	15.17%	14.69%	15.08%						
<i>Industrials</i>	11.79%	+0.24	11.55%	10.54%	10.30%	11.50%	11.58%	12.27%						
<i>Health Care</i>	11.09%	+0.10	10.99%	13.84%	14.66%	14.54%	11.86%	11.99%						
<i>Consumer Discretionary</i>	10.87%	-0.23	11.10%	9.66%	9.49%	8.94%	11.08%	10.72%						
<i>Energy</i>	12.42%	+1.18	11.24%	11.64%	12.23%	12.47%	9.81%	10.14%						
<i>Consumer Staples</i>	9.40%	-0.34	9.74%	11.04%	11.81%	11.95%	8.82%	8.76%						
<i>Utilities</i>	3.43%	-0.11	3.54%	4.31%	4.49%	4.56%	4.11%	3.79%						
<i>Basic Materials</i>	4.00%	-0.03	4.03%	3.57%	3.66%	3.24%	3.42%	3.28%						
<i>Telecom Services</i>	2.73%	-0.07	2.80%	3.16%	3.65%	3.44%	3.36%	2.94%						
<i>Other/Undefined</i>	0.14%	-0.07	0.21%											

FAGAN ASSOCIATES COMMON STOCK HOLDINGS SECTOR WEIGHTINGS

<i>Industry</i>	<i>Mar 31st, 2010</i>		<i>Dec 31st, 2010</i>		<i>Sept 30th, 2010</i>		<i>June 30th, 2010</i>		<i>Mar 31st, 2010</i>		<i>Sept 30th, 2009</i>		<i>Dec 31st, 2008</i>	
<i>Financials</i>	8.92%	+0.28	8.64%	12.32%	12.32%									
<i>Information Technology</i>	20.17%	-2.19	22.36%	23.96%	23.96%									
<i>Industrials</i>	15.22%	+0.58	14.64%	13.98%	13.98%									
<i>Health Care</i>	7.70%	-0.52	8.22%	9.50%	9.50%									
<i>Consumer Discretionary</i>	10.74%	-2.31	13.05%	11.14%	11.14%									
<i>Energy</i>	13.41%	+3.79	9.62%	8.74%	8.74%									
<i>Consumer Staples</i>	5.89%	-0.33	6.22%	5.50%	5.50%									
<i>Utilities</i>	3.18%	-0.16	3.34%	3.80%	3.80%									
<i>Basic Materials</i>	6.32%	+0.60	5.72%	6.39%	6.39%									
<i>Telecom Services</i>	1.33%	-0.02	1.35%	0.97%	0.97%									
<i>Index/Undefined</i>	7.09%	+0.23	6.86%	3.70%	3.70%									

Sector Performance Week Ending April 8th v. Week Ending April 1st v. March 25th

	Trailing Week	Year-to-Date	Trailing Twelve Months
Pos/Neg Last Week	32 / 66	80 / 18	87 / 11
Pos/Neg Last Week	89 / 9	79 / 19	89 / 9
Pos/Neg Last Week	95 / 3	70 / 28	88 / 10

Dow Jones U.S. Total Market Industry Groups for the Week Ended April 8th (Barron's MW 49)

Past Week Top Performing Industry Groups					Past Week Worst Performing Industry Groups			
1	Platinum & Precious Metals	+8.44%	BM	98	Airlines		-8.88%	CS
2	Gold Mining	+6.77%	BM	97	Auto Parts		-3.78%	CG
3	Nonferrous Metals	+3.02%	BM	96	Coal		-3.13%	BM
4	Apparel Retailers	+2.83%	CS	95	Commercial Vehicles		-2.83%	IND
5	Aluminum	+2.51%	BM	94	Railroads		-2.79%	IND
6	Industrial Suppliers	+1.92%	IND	93	Tires		-2.65%	CG
7	Consumer Finance	+1.71%	FINL	92	Specialty Finance		-2.54%	FINL
8	Commodity Chemicals	+1.53%	BM	91	Consumer Electronics		-2.46%	CG
9	Specialty Retailers	+1.40%	CS	90	Heavy Construction		-2.30%	IND
10	Recreational Products	+1.32%	CG	89	Delivery Services		-2.19%	IND

Dow Jones U.S. Total Market Industry Groups for the Week Ended April 1st (Barron's MW 45)

Past Week Top Performing Industry Groups					Past Week Worst Performing Industry Groups			
1	Paper	+6.97%	BM	98	Home Construction		-3.54%	CG
2	Marine Transportation	+6.10%	IND	97	Hotels		-2.74%	CS
3	Mortgage Finance	+4.78%	FINL	96	Computer Hardware		-2.17%	TECH
4	Brewers	+4.70%	CG	95	Semiconductor		-1.56%	TECH
5	Industrial Suppliers	+4.49%	IND	94	Airlines		-0.78%	CS
6	Commercial Vehicles	+4.34%	IND	93	Recreational Services		-0.73%	CS
7	Fixed Line Telecom	+4.31%	TEL	92	Tires		-0.70%	CG
8	Oil Equipment & Services	+4.23%	O&G	91	Home Improvement Retailers		-0.40%	CS
9	Delivery Services	+4.22%	IND	90	Telecom Equipment		-0.10%	TEL
10	Health Care Providers	+4.05%	HC	89	Toys		+0.09%	CG

Dow Jones U.S. Total Market Industry Groups for the Week Ended March 25th (Barron's MW 53)

Past Week Top Performing Industry Groups				Past Week Worst Performing Industry Groups			
1	Hotels	+10.00%	CS	98	Recreational Services	-1.32%	CS
2	Platinum & Precious Metals	+7.67%	BM	97	Mobile Telecom	-0.99%	TEL
3	Travel & Tourism	+7.47%	CS	96	Banks	-0.82%	FINL
4	Marine Transportation	+6.44%	IND	95	Drug Retailers	+0.43%	CS
5	Aluminum	+6.03%	BM	94	Real Estate Investment Trusts	+0.47%	FINL
6	Gold Mining	+5.95%	BM	93	Investment Services	+0.49%	FINL
7	Business Support Services	+5.41%	IND	92	Footwear	+0.57%	CG
8	Computer Hardware	+5.40%	TECH	91	Nondurable Household Products	+0.57%	CG
9	Tobacco	+5.31%	CG	90	Mortgage Finance	+0.61%	FINL
10	Coal	+5.25%	BM	89	Airlines	+0.82%	CS

Dow Jones U.S. Total Market Industry Groups or the Week Ended April 8th (Barron's MW 49)

Past Week		Year-to-Date			Trailing 12 Months				
1	+5	Basic Materials	+0.80%		Oil & Gas	+17.03%		Oil & Gas	+33.31%
2	+2	Health Care	+0.29%		Industrials	+8.22%		Basic Materials	+25.65%
3	+2	Oil & Gas	-0.17%	+1	Basic Materials	+6.68%	+1	Telecom	+20.71%
4	+5	Consumer Services	-0.18%	-1	Health Care	+6.61%	-1	Industrials	+20.09%
5	+3	Financials	-0.34%		Consumer Services	+4.95%		Consumer Services	+14.02%
6	-3	Utilities	-0.40%		Financials	+3.38%	+1	Consumer Goods	+12.69%
7		Consumer Goods	-0.42%		Utilities	+3.27%	-1	Technology	+11.08%
8	+2	Technology	-0.58%		Telecom	+2.84%		Utilities	+9.00%
9	-8	Telecom	-0.81%		Consumer Goods	+2.83%		Health Care	+5.68%
10	-8	Industrials	-1.31%		Technology	+2.47%		Financials	+0.84%

Dow Jones U.S. Total Market Industry Groups or the Week Ended April 1st (Barron's MW 45)

Past Week		Year-to-Date			Trailing 12 Months				
1	+6	Telecom	+4.19%		Oil & Gas	+17.23%		Oil & Gas	+35.26%
2	+2	Industrials	+2.42%		Industrials	+9.65%		Basic Materials	+26.57%
3	+5	Utilities	+2.24%		Health Care	+6.31%		Industrials	+22.55%
4	+5	Health Care	+2.14%		Basic Materials	+5.83%		Telecom	+20.44%
5	-2	Oil & Gas	+2.02%		Consumer Services	+5.15%		Consumer Services	+16.08%
6	-4	Basic Materials	+1.91%	+1	Financials	+3.73%		Technology	+13.00%
7	-1	Consumer Goods	+1.57%	+2	Utilities	+3.69%		Consumer Goods	+12.29%
8	+2	Financials	+1.53%	+2	Telecom	+3.67%		Utilities	+9.38%
9	-4	Consumer Services	+1.39%	-1	Consumer Goods	+3.26%		Health Care	+4.30%
10	-9	Technology	-0.04%	-4	Technology	+3.07%		Financials	+3.52%

Dow Jones U.S. Total Market Industry Groups or the Week Ended March 25th (Barron's MW 53)

Past Week		Year-to-Date			Trailing 12 Months				
1	+8	Technology	+4.26%		Oil & Gas	+14.91%		Oil & Gas	+38.49%
2	-1	Basic Materials	+4.17%		Industrials	+7.06%		Basic Materials	+28.80%
3	-1	Oil & Gas	+4.01%		Health Care	+4.08%		Industrials	+21.36%
4	+1	Industrials	+3.16%	+2	Basic Materials	+3.85%		Telecom	+17.11%
5	+3	Consumer Services	+2.91%		Consumer Services	+3.70%		Consumer Services	+15.53%
6	+1	Consumer Goods	+2.79%	+2	Technology	+3.10%		Technology	+12.80%
7	-4	Telecom	+2.35%	-3	Financials	+2.17%		Consumer Goods	+10.91%
8	+2	Utilities	+1.92%	+1	Consumer Goods	+1.67%		Utilities	+9.40%
9	-3	Health Care	+1.85%	-2	Utilities	+1.41%	+1	Health Care	+2.60%
10	-6	Financials	+0.64%		Telecom	-0.49%	-1	Financials	+2.54%

Economic Releases

Majority of Economic Data found at www.haver.com

Thursday, April 7th

The Federal Reserve reported that **CONSUMER CREDIT** rose by \$7.6 billion during February, the fifth straight increase after seven consecutive monthly declines. Over the past year Consumer Credit has fallen by 0.6% as high unemployment, a weak housing market has put consumers 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 \$10.3 billion during February, this after rising \$8.3 billion during January and by 2.3% y/y. Finally, **revolving credit** (credit cards) outstanding fell \$2.7 billion in February, this after falling \$4.0 billion during January and by 6.2% y/y.

INITIAL CLAIMS FOR UNEMPLOYMENT BENEFITS for the week ended April 2nd fell 10,000 to 382,000 from a revised 392,000 one week prior, *stubbornly high numbers consistent with an economy that is growing, but not sufficiently enough to create an adequate number of jobs to benefit the labor market in any substantial manner. That said, the number of claimants are at their lowest levels since May 2008, perhaps an indication that the labor market, historically a lagging indicator, is firming.* The four-week rolling average decreased by 5,750 to 389,500 from a revised level of 395,250 one week prior while continuing claims for the week ended March 26th fell 9,000 to 3,723,000 from 3,732,000 one week prior, a number which represents one of the lowest levels since October 2008. The continuing claims four-week average fell 24,000 to 3,745,750 from 3,769,750.

Tuesday, April 5th

The Institute for Supply Management’s **composite index of non-manufacturing (service) sector activity** fell to 57.3% during March from 59.7% in February. The level recorded during February is far above the 37.2 low recorded during Q4-2008, marks the highest reading since August 2005, the 14th consecutive increase and is in a sector that employs 80% of the U.S. workforce. Of note were **New Orders** (64.1% v. 64.4%), **Employment** (53.7% v. 55.6%), **Business Activity** (59.7% v. 66.9%) and the **Backlog of Orders** (56.0% v. 52.0%). Finally, the **Prices Paid Component** slipped to 72.1% from 73.3%.

Friday, April 1st

NON-FARM PAYROLLS rose by 216,000 during March and by upwardly revised levels of 194,000 and 68,000 recorded during February and January, respectively from an initially recorded 192,000 and 63,000. Impressively, the **PRIVATE SECTOR** created 230,000 jobs while the public sector shed 14,000. Meanwhile the **UNEMPLOYMENT RATE** fell to 8.8% from 8.9%, the lowest level since March 2009. That said, the **LABOR FORCE PARTICIPATION RATE** held at a twenty-seven year low of 64.2%. Furthermore, encouragingly, the **UNDEREMPLOYMENT RATE**, which includes the unemployed as well as those who were either marginally attached to the labor force or were involuntarily working part-time (U6), fell to 15.7% during March from 15.9% recorded during February. **AVERAGE HOURLY EARNINGS** unexpectedly fell to \$19.30 from \$19.32, but has risen by \$0.37 or 1.95% over the past year. The **AVERAGE HOURS WORKED** rose to 33.6 hours from 33.5 hours and from 33.3 one year ago. This combination helped push **AVERAGE WEEKLY EARNINGS** up \$1.26 or 0.19% to \$648.48 during March as compared to one month prior. Average Weekly Earnings over the past year have risen by 2.87% or \$18.11. Finally, the number of the long-term unemployed (twenty-seven weeks or longer) rose to 6.122 million from 5.993 million or 45.5% of the 13.4 million. This number will most likely remain stubbornly high for several years as “structural” unemployment will continue to be an issue.

The Institute for Supply Management’s **composite index of manufacturing sector activity** slipped to 61.2% in March from 61.4% in February. Generally speaking, “a reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting.” Of note were the changes in **New Orders** (63.3% v. 68.0%), **Production** (69.0% v. 66.3%), **Supplier Deliveries** (inverse, indicates faster deliver times) (63.1% v. 59.4%), **Inventories** (47.4% v. 48.8%) and **Employment** (63.0% v. 64.5%). The **Prices Paid Component** rose to 85.0% v. 82.0%.

U.S. CONSTRUCTION SPENDING during February was once again negatively impacted by the severe winter weather, falling 1.4%, this following a decline of 1.8% during January and a drop of 6.8% y/y. **Private Construction Spending** fell 1.4% and by 10.8% y/y while **Private Residential Construction Spending** fell 3.7% in February and by 8.1% y/y. **Private Nonresidential Construction Spending** rose 0.9% (-13.2% y/y) and finally, **Public Construction** fell 1.3% during February, but has risen by 0.5% y/y.

Tuesday, March 29th

The **CONFERENCE BOARD’S CONSUMER CONFIDENCE INDEX** fell to 63.4 during March just one month from its three year high level of 70.4 recorded during February. The **present situation** index rose to 36.9 from 33.8, its highest level since November 2008 while the **expectations index** plunged to 81.1 from 95.1 as consumer worries about the higher cost of energy mounted. Those surveyed said that **jobs are “hard to get”** rose to 44.6% from 44.4% while those claiming that **jobs are “plentiful”** slipped to 4.4% from 4.9%.

Monday, March 28th

The Bureau of Economic Analysis reported that **PERSONAL INCOME** rose 0.3% during February, this after rising 1.2% during January and by 5.1% y/y as gasoline expenditures rose 6.2% (16.0% y/y). **DISPOSABLE PERSONAL INCOME** (personal income less taxes) rose 0.3% in February, this after rising by 0.8% in January and by 4.4% y/y. The **WAGE & SALARY COMPONENT** rose 0.3% in February, by 0.3% in January and by 4.1% y/y. **PERSONAL CONSUMPTION**, which represents approximately 70% of economic activity rose 0.7% in February and by 4.1% y/y. **PERSONAL SAVINGS** (Disposable Personal Income Less Outlays) slipped to 5.8% during February, down from 6.1% during January, but well off the series low of 1.8% recorded during the latter part of 2007. The **PCE CHAIN PRICE INDEX**, one of the Fed's favorite measures of inflation rose 0.4% during February and by 1.6% y/y while the **core PCE Chain Price Index** edged up 0.2% during February and by 0.9% y/y.

Friday, March 25th

The Commerce Department reported that its' **SECOND REVISION TO FOURTH QUARTER GROSS DOMESTIC PRODUCT**, a tally of the output of all goods and services in the United States, rose at an annual pace of 3.1%, up from an initially revised 2.8%, but down from an initially reported 3.2%. During the third quarter of 2010, GDP rose at an annualized rate of 2.6%. **FINAL SALES** were remained unrevised at an annualized rate of 6.7% while **FOREIGN TRADE** slipped to 3.3% from 3.4%. The negative impact of inventory was trimmed to -3.4% from -3.7% while **Personal Consumption and Business Fixed Investment** had a positive 4.0% and 7.7% net impact. **Domestic Final Demand** rose by a revised 3.2% versus an initially reported 3.1%. Finally, the **PCE Chained GDP Price Index** rose by an unrevised 0.4% and by 1.4% y/y.

The University of Michigan reported that its **FINAL MARCH READING OF CONSUMER SENTIMENT** slid to 67.5% from a mid-month 68.2% and from a final February reading of 77.5% as consumers continued to worry about the negative impact of higher energy prices. The **expectations component** fell to 57.6% at the end of March from 58.3% during the middle of the month and from 71.6% at the end of February. Finally, the final March **current conditions component** slipped to 82.5% from 83.6% during mid-March and from 86.9% at the close of February.

Thursday, March 24th

ORDERS FOR DURABLE GOODS (those expected to last at least three years) fell 0.9% (+6.2% y/y) during February, this after rising 3.6% during January. That said, **Orders for durable goods, excluding transportation**, fell 0.6% (+8.5% y/y) during February, this after falling 3.0% during January. Finally, **orders for nondefense capital goods** rose 2.5% (+6.4% y/y) while **orders for nondefense capital goods ex-aircraft** fell by 1.3% (+10.2% y/y) in February.

Wednesday, March 23rd

The Commerce Department reported that **SALES OF NEW HOMES** during the month of February plunged another 16.9% or by 51,000 to 250,000 from 301,000 in January which had seen a 9.6% decline from 333,000. The February number marks a record low. Sales of New Homes have fallen 28.0% y/y and by nearly 75% since the peak in July 2005 of 1,279,000 units. At the current sales rate, it would take 8.9 months to sell the current inventory of unsold homes, up from 7.9 months in January, but down from a record 12.4 months recorded during January 2009. The **median price of a new home** fell 13.9% to \$202,100 during February from \$234,800 in January (-8.9% y/y). *As of point of reference, Sales of New Homes for Calendar Year 2010 totaled 321,000 which marked the fewest number of homes sold on a calendar year basis on record which goes back 47 years. Analysts consider annual sales of 600,000 or above as healthy and sustainable.*

Monday, March 21st

SALES OF EXISTING HOMES slumped 520,000 during the month of February to 4,880,000 this after rising by 180,000 during January. Sales of Existing Homes have fallen by 2.8% over the past twelve months. The **inventory of unsold homes** jumped to 8.9 months in February from 7.4 months in January, while the **inventory of unsold single-family homes** rose to 7.8 months during February from 7.5 months one month prior. Finally, the **median existing-home sales price** plunged \$1,800 to \$156,100 during February from \$157,900 in January and by 5.2% y/y to their lowest levels since April 2002. The recent decline in the median existing home sales price, coupled with historically low interest rates, has helped pushed home affordability up by approximately 2/3 from the 2006 low.

Thursday, March 17th

Prices at the retail level as represented by the **CONSUMER PRICE INDEX** rose 0.5% during February, this after rising 0.4% during

January and by 2.2% y/y. The **core CPI**, which is represented by the CPI excluding food and energy, rose 0.2% during February, by 0.2% during January and by just 1.1% y/y. Finally, the **chained CPI**, which measures inflation, but adjusts for shift in the mix of consumer purchases rose 0.5% in February, by 0.5% during January and by 2.0% y/y while the **core chained CPI** rose 0.4% in February and by 0.9% y/y.

The Conference Board reported that its **INDEX OF LEADING ECONOMIC INDICATORS** rose 0.8% during February, this after rising by 0.1% and 1.0% during January and December, respectively. Over the past six months the LEI has risen 3.2%, an indication of an economy that is rising at a moderate pace, accelerating somewhat from its' mid-2010 slowdown. Eight of the ten components that comprise the index rose, including, in order of impact, the interest rate spread, average initial claims for unemployment benefits (inverted), stock prices, real money supply, average weekly manufacturing hours, the index of consumer expectations, the index of supplier deliveries, and manufacturers' new orders for consumer goods and materials. Detracting from the gain was building permits and manufacturers' new orders for nondefense capital goods. According to Ken Goldstein, Economist at The Conference Board, "Latest data point to an improving economy, one that will continue to gain strength through the summer. The economy continues to encounter strong headwinds. One headwind is the sharp rise in food and energy prices. Still, the way inflation will move is unclear, given the degree of slack in the overall economy, and especially in the labor market."

Perhaps illustrative of why many economists and analysts differ over the direction of the economy, **INDUSTRIAL PRODUCTION**, a measure of strength of the manufacturing, factory and utility sectors, fell 0.1% during February, this after having fallen 0.1% during January. Over the past year Industrial Production has risen 5.5%. **CAPACITY UTILIZATION** edged down to a still relatively respectable 76.3% during February from 76.4% one month prior. Finally, **MANUFACTURING CAPACITY** rose to 74.3% during February from 74.1% during January and from a recession low of 65.4%. The nation's mines, factories and utilities operated at an average of 80.6% of capacity from 1972 to 2009.

Wednesday, March 16th

The **PRODUCER PRICE INDEX** leapt 1.6% in February as energy prices rose 3.3%. This follows increases of 0.8% and 1.8% during January for these two components. Over the past year the PPI has risen 5.8% while energy costs have surged 15.3%. Finished food prices rose 3.9% in February and by 7.4% y/y. Excluding food and energy, the so-called **core PPI** rose 0.2% during February and by 1.9% y/y.

HOUSING STARTS slumped 22.5% during February 479,000 from 618,000 one month prior, a number which marks the lowest since this economic recovery began. Over the past year Housing Starts have fallen 20.8% and by approximately 75% from their early-2006 highs. Of note is the fact that there must be approximately 300,000 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 fell 11.8% or 50,000 to 375,000 from 425,000 during January. **Multi-family** housing starts sank 89,000 to 104,000 in February from 193,000 during January. **BUILDING PERMITS**, a preview of future housing starts, fell 8.2% to 517,000 in February from 563,000 during January, and have fallen 20.5% y/y. *Our take – the housing market will remain slow for quite some time as inventory remains high and consumers remain wary of big purchases.*

Tuesday, March 15th

U.S. Import Prices jumped 1.4% during February, this after rising by 1.3% and 1.4% over January and December, respectively. Over the past year U.S. Import Prices have risen by 6.9% y/y. The main culprit is petroleum prices which rose by 3.7% during February to \$101.46/bbl and by 20.6% y/y. **Export prices** rose 1.2% in February and by 8.6% y/y. **Agricultural export prices** surged 4.4% during February (33.5% y/y) while **Non-Agricultural Export Prices** rose 0.9% (6.2% y/y).

Friday, March 11th

RETAIL SALES rose 1.0% during February, this after rising 0.7% during January. The consensus estimate was for a gain of 1.0%. Over the past year Retail Sales have risen a strong 8.9%. Spending on **MOTOR VEHICLE & PARTS** rose 2.3% (23.7% y/y) while **RETAIL SALES EXCLUDING AUTOMOBILES** also rose 0.6% (6.3% y/y). **EXCLUDING AUTOS AND GASOLINE**, Retail Sales rose 0.5% during February (5.3% y/y), this after rising 0.6% during January.

BUSINESS INVENTORIES continued to grow, during January by 0.9%. Over the past year, Business Inventories have grown by 9.1%. However, **BUSINESS SALES** more than offset the gains in inventory accumulation, rising 2.0% during January and by 1.1% in December. The **INVENTORY-TO-SALES RATIO** sank to 1.23 months from 1.25 months during January, matching the all-time lows recorded during March and April 2010.

Thursday, March 10th

The **U.S. TRADE DEFICIT** rose to \$46.3 billion during January, up sharply from \$40.3 billion during December due mostly from higher oil prices. The value of **EXPORTS** rose 2.7% to \$167.7 billion from \$163.3 billion while the value of **IMPORTS** rose by

5.2% to \$214.1 billion in January from \$203.6 billion in December. The consensus estimate projected the deficit to rise to approximately \$41.5 billion. Accounting for most of the increase, oil rose to \$84.34/bbl during January from \$79.78/bbl during December and from a cycle low of \$39.22/bbl recorded a year ago February. Of note was the fact that our **trade deficit with China** fell to rose to \$23.3 billion in January from \$20.7 billion during December.

Friday, January 28th

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 2.0%, unchanged from the third quarter, but off the annualized pace of 1.2% during Q4-2009, a rate which marked the slowest pace of growth on record (the series dates back to 1980). The **wages & salaries component** (70% of ECI) rose by 0.4% (1.7% y/y) during the fourth quarter, this following the 0.4% gain during the third quarter. The **cost of benefits** rose by 0.4% over the past quarter, by 0.5% during the third quarter and by 2.8% over the past twelve months.

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

2010 Scheduled FOMC Meetings:

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 16th, 2008. This was the tenth rate cut after the Fed Funds Rate peaked at 5.25% on June 29th, 2007.

Discount Rate

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

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

Statement by The Federal Reserve following the March 15th 2010 Meeting

Information received since the Federal Open Market Committee met in January suggests that the economic recovery is on a firmer footing, and overall conditions in the labor market appear to be improving gradually. Household spending and business investment in equipment and software continue to expand. However, investment in nonresidential structures is still weak, and the housing sector continues to be depressed. Commodity prices have risen significantly since the summer, and concerns about global supplies of crude oil have contributed to a sharp run-up in oil prices in recent weeks. Nonetheless, longer-term inflation expectations have remained stable, and measures of underlying inflation have been subdued.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate remains elevated, and measures of underlying inflation continue to be somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. The recent increases in the prices of energy and other commodities are currently putting upward pressure on inflation. The Committee expects these effects to be transitory, but it will pay close attention to the evolution of inflation and inflation expectations. The Committee continues to anticipate a gradual return to higher levels of resource utilization in a context of price stability.

To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to continue expanding its holdings of securities as announced in November. In particular, the Committee is maintaining its existing policy of reinvesting principal payments from its securities holdings and intends to purchase \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.

The Committee will maintain the target range for the federal funds rate at 0 to ¼ 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 for the federal funds rate for an extended period.

The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Richard W. Fisher; Narayana Kocherlakota; Charles I. Plosser; Sarah Bloom Raskin; Daniel K. Tarullo; and Janet L. Yellen.

Statement by The Federal Reserve following the June 22nd-23rd, 2010 Meeting

Information received since the Federal Open Market Committee met in April suggests that the economic recovery is proceeding and that the labor market is improving gradually. Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software has risen significantly; however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be moderate for a time.

Prices of energy and other commodities have declined somewhat in recent months, and underlying inflation has trended lower. With substantial resource slack continuing to restrain cost pressures and 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.

The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to promote economic recovery and price stability.

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. Hoenig, who believed that continuing to express the expectation of exceptionally low levels of the federal funds rate for an extended period was no longer warranted because it could lead to a build-up of future imbalances and increase risks to longer-run macroeconomic and financial stability, while limiting the Committee's flexibility to begin raising rates modestly.

Statement by The Federal Reserve following the April 28th, 2010 Meeting

Information received since the Federal Open Market Committee met in April suggests that the economic recovery is proceeding and that the labor market is improving gradually. Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software has risen significantly; however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be moderate for a time.

Prices of energy and other commodities have declined somewhat in recent months, and underlying inflation has trended lower. With substantial resource slack continuing to restrain cost pressures and 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.

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Statement by The Federal Reserve following the Hike in the Discount Rate on February 18th, 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.

Social Security Data

• New York Tax Freedom Day for 2010	April 23 rd
• 2010 Social Security Cost of Living Adjustment (COLA)	0.0%
• Average Monthly Benefit	\$1,153.
• 2010 Social Security Wage Base	\$106,000.
• Social Security Recipients Under Age 65 in 2010 Can Earn	\$14,160.
• Social Security Recipients Ages 65 Until Full Retirement Age	\$37,680.
• Social Security Recipients At Full S.S. Retirement Age	Unlimited

Re-characterization of Roth IRA back to Traditional IRA

The Internal Revenue Service gives you up to October 15th of the year following the year of the Roth conversion to re-characterize that conversion. So for 2009 Roth conversions, the re-characterization deadline is October 15, 2010. 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.

**Largest Holdings Regardless of Asset Class
Ranked by *Market Value* as of March 31st, 2011.**

Percent of Total Assets Managed	Company Name	Symbol	As of Mar 31st, 2011	As of Feb 28th, 2011	As of Jan 31st, 2011
15.77%	Cash & Equivalents		1	1	1
4.82%	Payden GNMA Fund	PYGNX	2	2	2
3.22%	Apple Computer	AAPL	3	3	3
2.30%	Loomis Sayles Bond Fund	LSBRX	4	4	4
2.08%	SPDR Dividend ETF	SDY	5	5	5
1.74%	General Electric	GE	6	6	6
1.72%	Conoco Phillips	COP	7	7	10
1.63%	Ridgeworth High Income	STHTX	8	9	11
1.54%	JP Morgan Chase	JPM	9	8	9
1.47%	PIMCO Total Return	PTTDX	10	11	8
1.47%	iShares Barclays TIP Bond	TIP	11	14	14
1.39%	Hewlett Packard	HPQ	12	10	7
1.30%	McDonald's Corp.	MCD	13	13	12
1.26%	MasterCard, Inc.	MA	14	14	13
1.13%	MetWest Tot Ret Bond Fund	MWTRX	15	18	19
1.12%	Exxon Mobil	XOM	16	16	17
1.10%	Nike, Inc.	NKE	17	15	15
1.08%	Schwab 1000 Fund	SNXFX	18	17	16
0.99%	Baron Asset Fund	BARAX	19	20	20
0.96%	Intel Corporation	INTC	20	19	18
0.82%	Ford Motor Co	F	21	22	21
0.77%	Emerson Electric	EMR	22	23	22
0.77%	Mosaic Companies	MOS	23	21	23
0.72%	S&P 500 DR's	SPY	24	24	26
0.72%	SPDR Intl Dividend ETF	DWX	25		
0.70%	Pepsico, Inc.	PEP	26	25	27
0.48%	Johnson & Johnson	JNJ	48	28	24
0.02%	Cisco Systems, Inc.	CSCO	283	249	25

Portfolio Concentration: Top 25 holdings represent 51.87% of the Assets Managed at Fagan Associates as of March 31st, 2011.

Common Stock & Equity ETF Portfolio Holdings**
Ranked by Market Value as of March 31st, 2011.

Percent of Common Stock	Company Name	Symbol	As of Mar 31st, 2011	As of Feb 28th, 2011	As of Jan 31st, 2011
7.60%	Apple Computer	AAPL	1	1	1
4.91%	SPDR Dividend ETF	SDY	2	2	2
4.11%	General Electric	GE	3	3	3
4.05%	Conoco Phillips	COP	4	4	6
3.64%	JP Morgan Chase	JPM	5	5	5
3.28%	Hewlett Packard	HPQ	6	6	4
3.06%	McDonald's Corporation	MCD	7	7	7
2.98%	MasterCard, Inc.	MA	8	8	8
2.63%	Exxon Mobil	XOM	9	10	10
2.59%	Nike, Inc.	NKE	10	9	9
2.26%	Intel Corp.	INTC	11	11	11
1.93%	Ford Motor Company	F	12	13	12
1.82%	Emerson Electric Co.	EMR	13	14	13
1.82%	Mosaic Companies	MOS	14	12	14
1.71%	S&P 500 ADR's	SPY	15	15	17
1.66%	Pepsico, Inc.	PEP	16	16	18
1.63%	Dow Chemical	DOW	17	17	19
1.59%	Celgene Corp.	CELG	18	22	25
1.47%	Pfizer, Inc.	PFE	29	26	26
1.44%	BP, plc	BP	20	19	45
1.38%	iShares DJ Select Divd Index	DVY	21	20	20
1.35%	EMC Corporation	EMC	22	21	23
1.23%	Visa, Inc.	V	23	23	29
1.20%	Oracle Corporation	ORCL	24	25	21
1.19%	First Niagara Financial	FNFG	25	24	24
1.12%	Johnson & Johnson	JNJ	16	18	15
1.12%	Diageo, PLC ADRs	DEO	27	22	22

Portfolio Concentration: Top 25 holdings represent 62.53% of the common stock portfolio, as of March 31st, 2011.

Largest Mutual Fund Holdings as of March 31st, 2011.

Domestic Equity Funds	International Equity Funds	Hybrid/Fixed Income/ Muni Fund/ETF
Schwab 1000 Fund	SPDR International Dividend ETF	Payden GNMA Fund
Baron Asset Fund	William Blair International Growth	Loomis Sayles Bond Fund
Parnassus Equity Income Fund	Tweedy Browne Global Value	Ridgeworth High Income
Oakmark Fund	Harbor International Fund	PIMCO Total Return
Fidelity Growth Fund	Janus Overseas	iShares Lehman Bros TIPS

Common Stock & Equity ETF Portfolio Holdings**
Ranked by *Share Balance* as of March 31st, 2011.

Notes & Stock Splits; Avg. Cost Per Share			Company Name	Symbol	As of Mar 31st, 2011	As of Feb 28th, 2011	As of Jan 31st, 2011
\$22.71	1	1	General Electric	GE	136,672	134,742	131,312
\$9.36	2	2	Ford Motor Company	F	86,285	84,580	85,015
\$19.94	3	3	Intel Corporation	INTC	74,449	75,469	71,469
\$47.49	4	4	SPDR Dividend ETF	SDY	60,394	59,307	56,307
\$11.65	5	5	First Niagara Financial	FNFG	58,362	55,383	53,350
\$43.01	6	6	Hewlett Packard Co.	HPQ	53,244	54,429	54,429
\$40.56	7	7	JP Morgan Chase	JPM	52,563	53,278	52,177
\$17.84	8	8	Pfizer, Inc.	PFE	48,140	40,977	39,477
\$12.35	9	9	Dell Computer	DELL	34,770	34,770	34,770
\$20.44	10	11	EMC Corporation	EMC	33,945	32,075	29,900
\$50.16	11	10	Conoco Phillips	COP	33,790	32,815	32,125
\$26.51	12	12	Dow Chemical	DOW	28,703	28,953	28,953
\$21.40	13	14	Altria Group, Inc.	MO	27,303	25,304	21,104
\$43.17	14	13	McDonalds Corp.	MCD	26,762	26,762	26,012
\$20.52	15	15	Oracle Corporation	ORCL	23,926	24,026	24,026
\$63.15	16	17	Nike, Inc.	NKE	22,749	20,949	20,949
\$8.44	17	16	TrustCo BankCorp	TRST	22,088	21,548	21,498
\$45.85	18	21	BP, plc	BP	21,770	19,315	7,995
\$28.31	19	19	Microsoft Corp.	MSFT	21,051	20,529	20,799
\$39.59	20	18	Exxon Mobil	XOM	20,853	20,706	20,626
\$42.91	21	20	Emerson Electric	EMR	20,790	20,385	20,460
\$32.44	22	24	Vale, SA ADR	VALE	18,660	17,265	9,565
\$25.93	23	86	Statoil ASA	STO	18,590	2,840	2,615
\$53.51	24	28	Celgene Corp	CELG	18,382	15,852	14,002
\$15.91	25	22	SPDR Select Tech	XLK	17,900	17,900	17,900
\$49.60	27	23	I-Shrs DJ Divd Index	DVY	17,587	17,707	17,707
\$63.43	30	25	Pepsico, Inc.	PEP	17,165	17,140	16,520

**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.