



Market Commentary

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Market Returns

	April	Year-to-Date		April	Year-to-date
DJIA	7.3%	-6.9%	MSCI EAFE	12.3%	-4.2%
S&P 500	9.4%	-3.4%	MSCI Emerging Mkts	16.3%	16.9%

An Excellent Two Months It has been a long time since we have been able to say that. April's strong returns followed March's 8.5% and 14.2% advances, respectively, for the S&P 500 and Emerging Markets indices. Such impressive two month gains are not unprecedented, Citigroup Global Markets informs us: "Historically, US equities have bottomed an average of five months prior to the end of recessions. In addition, equity returns have been robust and front-end loaded in the year following major market troughs."

Skepticism While global stimulus spending and credit support programs have fueled the stock market's advance, short ultra-safe short maturity bonds are still priced at panic levels, with the 2 year Treasury paying less than 1%. This shows a huge amount of skepticism as to whether the credit markets have returned to normal. It will be difficult for stocks to continue their advance without credit markets improving, at which time this "safe" money should flow back into stocks and corporate bonds.

Death of Buy-and-Hold? The total collapse of virtually all asset classes last year has left investors questioning long-held investment philosophies, particularly that of "buy and hold." While superficially our process may appear as such, this is not the case. If a stock or a sector is in obvious distress, as were many financial firms last summer, we rely on our mutual fund managers to make needed changes. For instance:

- The eight largest mutual funds we hold had an average portfolio turnover rate of 82%; with a high of 267% and a low of 17%. Managers are paid for performance, and also have their own money in funds they manage.
- Accounts are reviewed and rebalanced as necessary. Periodic capital gains distributions are reinvested according to our model. Sectors that have appreciated beyond their target allocations are pared.
- Our tactical model changes regularly to reflect economic conditions. Most recently weightings increased for domestic growth stocks and emerging markets. Client accounts are adjusted accordingly
- Our no-load mutual fund approved list is reviewed monthly, and we eliminate funds that no longer meet our criteria, and add promising new managers.

Alternative Investments For those who deride buy-and-hold the leading candidates to supplant it are "alternative investments," including private equity, commodities, and various hedge fund strategies. To their regret, many pension plans and large foundations over the last couple years jumped into these investments, and the results were, in many cases, disappointing. However, many of today's so-called "alternative" investments may become widely accepted, as years ago, high yield bonds, emerging market debt and even foreign stocks and bonds were viewed as alternative investments, and inflation protected securities weren't even available. Today these are mainstream asset classes, and some are even found in 401(k) plans.

Nothing New Last week we drove past the old Lorain Ford Assembly plant. At its height, separate production lines produced both Econoline vans and passenger cars. Now its vast parking lot stores Honda's excess production from the Marysville plant. This is reminiscent of the 1980's when GM was criticized for overproduction, as seemingly every available parking lot in Michigan was used as storage for their excess capacity. In a final irony, parked among the thousands (20,000?) of Hondas was a lone Ford Econoline van to shuttle drivers around the lot.

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