



Market Commentary

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MARKET RETURNS

	<u>April</u>	<u>Year-to-Date</u>	<u>Last 12 Months</u>		<u>April</u>	<u>Year-to-Date</u>	<u>Last 12 Months</u>
DJIA	1.4%	5.6%	34.1%	MSCI EAFE	-2.1%	-1.9%	30.8%
S&P 500	1.5%	6.4%	35.2%	MSCI Emerging Mkts	1.0%	3.1%	53.9%

MARCH Dollar vs. Euro In our February 1, 2008 Market Commentary, a time when there was a steadily rising Euro and talk of the US dollar losing its reserve currency status, we questioned the Euro's strength should it be stress-tested by severe economic or social conditions. We said, "...could the Euroland countries, with their diverse political, national and ethnic backgrounds, be counted on to stand by their currency?" Our question is being answered; the US Dollar has been tested, it passed, and will be tested again, but stands a better chance of retaining its value than most currencies.

Bullish on Northern Ohio A recent PBS Nova program, *Mind Over Money*, featured Jeremy Grantham, 71 year old Chief Investment Strategist of Boston based investment manager Grantham Mayo Otterloo. Grantham is a Wall Street legend and a deep value investor. He spoke about investment bubbles and busts, and got us thinking about Northern Ohio, which unfortunately falls into the latter category. Being a "deep value" investor sometimes means being bullish on something, because it is just plain cheap. Northern Ohio fits that bill. Other than a winter six weeks too long, this area has much going for it, including no rush hour gridlock, four seasons, and a deep winter cold inhospitable to less desirable insects and animals (think palmetto bugs, scorpions, and rattlesnakes). We have nearby world-class healthcare institutions, affordable, bordering on cheap, housing, absence of severe weather and natural disasters (except the occasional tornado), and a world-class freshwater playground. We believe in our lifetime, hopefully sooner, this area will be rediscovered as a great place to work, play and raise a family. Does anyone know a successful hedge fund manager willing to relocate his team to offices overlooking Sandusky Bay?

Grantham's Opinion Bloomberg.com quoted Jeremy Grantham's Quarterly Letter saying "It is 'nearly certain' that the highest quality stocks, known as blue chips, will outperform the market in the next seven year..." Reading the full letter reveals a less sanguine view. He sees a 30% chance that the "Economy has a strong and sustained recovery, rates rise, market fall, but basically all is well." His most probable outcome at 49% is that the "Economy bumps along, rates stay low...and market prices rise until October 2011 to dangerous levels, then break with severe consequences." Another reason he favors this view is, "Since 1932, there has never been a serious decline in Year 3 (of the Presidential Cycle). Never!" Year 3 begins November. Parenthetically, we might add that "never" is a dangerous word.

The Rise of the Machines Machines, not man, clearly caused May 7th's "flash crash." A rationale person would not trade what is normally a \$35 stock for a penny. The New York Stock Exchange has been criticized for causing the computer driven trading on exchanges outside the NYSE to go awry. We believe the NYSE acted properly when, as they were confronted with some order anomalies, went into "go slow mode". This retarded trading by adding a human element to make sense of the odd pricing action in some stocks, effectively creating an orderly market, albeit at lower prices. It is our understanding that the extraordinarily odd trades, some as low as a penny a share, were on the electronic exchanges, not the NYSE.

High Frequency Trading Is Just Wrong News reports have stated high frequency traders account for 67% of today's market volume. High frequency traders are electronically driven programs that trade large blocks of stocks, hoping to make fractions of cents on each trade. At the end of the day, their goal is to own nothing. Imagine hyperactive day traders with extraordinarily deep pockets.

This is not investing; it is using shares of stock as if they are chips in a high stakes Vegas game. Stock shares are not poker chips, but represent fractional ownership in real companies that provide products and services, and consequently provide jobs and economic strength. Let's do a little math. Last week NYSE volume was 33 billion shares. If 67% of that was from high frequency traders, and they made a tenth of a cent per share, their profit for the week was \$22 million. Real investors, the remaining third of the volume, are paying the bill.

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