

Market Commentary

October 1, 2009

Investors enjoyed another strong quarter as markets continued to rebound from the lows of March. The swinging pendulum that caused so much pain changed direction and moved into positive territory making this quarter the best in more than ten years.

In fact, the Dow Jones Industrial Average had its best third quarter since 1939 up more than 15%. Large company stocks, as measured by the S&P 500, returned 15.6% for the third quarter and 19.3% for the year. Midsize companies led domestic stocks with returns of 20.6% and 32.6% for the quarter and year respectively, as measured by the Russell Midcap Index. The financial sector had the quarter's winning performance generating 25.5%. This powerful rally that started in March and gained steam over the summer finally put all sectors of the domestic market into positive territory erasing the negative returns of January and February.

After a nearly 60% gain since the March low, has the economy and the markets finally turned a corner? We wouldn't be surprised to hear that an official end to the recession has already taken place. However, we have uncertainty about what will keep the markets moving forward. There has been stabilization in unemployment, home sales and retail sales but it seems like the momentum has had less to do with fundamentals of the economy than with a rekindled greed. Merger and acquisition activity has picked up in corporate America and investors, including investment managers, have been buying stocks to avoid being left out.

In short, the psychology of fear and greed (or optimism and pessimism) has been moving the markets to extremes. It certainly appears that the worst of the crisis is behind us and we believe that the economy is in a healing mode. However it is concerning that the medicine that kept the patient alive and gave it a jolt of life may have side effects not yet fully realized. Aggressive corporate cost cutting coupled with aggressive Federal government spending created strong but unsustainable earnings. At some point, the Fed will start peeling back its support, short term stimulus programs will end and corporations will have to rely on revenue growth to fuel earnings. For long term growth, jobs will need to be created and consumers and companies will need to step forward to replace the government spending. We're tempering our enthusiasm for a quick recovery with one that will take time and will likely have bumps along the way.

With that said, there are still considerable opportunities for the patient and particular investor. Our belief in selecting and utilizing the best and the brightest portfolio managers holds now more than ever. Trends are emerging that will eventually lead us into the market's next cycle. Until then volatility may become the expected constant. Bill Gross of PIMCO speaks of a 'new normal' for investors and the economy. His 'new normal' does not describe a 'V' shaped recovery, but rather one that recovers at a slower and uneven pace that may very well be healthier for our nation long term.

As we enter the fourth quarter, we are pleased to see momentum continue. We will continue to look for opportunities across asset classes both domestically and internationally. We welcome any questions or concerns that you have and look forward to seeing you in the months ahead.

Thomas L. Menzel, CFP®
Asset Manager

Shawn J. Jacobson, CFP®, ChFC, MBA
Asset Manager