

2nd Quarter Recap 2009

The second quarter of 2009 ended with all the major indices showing improvement. The Dow Jones Industrial Average posted a gain of 11%; the S&P 500 gained 15%; the NASDAQ Composite gained 20%. All the talk of green shoots from the first quarter carried over into the second quarter and marked a period of healing for the global markets. Energy and other commodity prices rebounded as the outlook for the global economy improved and demand was expected to increase. As investors became more comfortable holding onto their riskier assets, they move away from Treasuries. US bonds declined by nearly 3% for quarter, adding to the loss from the first quarter.

The significant gains in the market place, since the lows back in March, have brought the equity markets back into what many consider to be a fair value. The price/earnings ratio of the S&P 500 is back to the historic range of between 15 and 16. This means most of the economic improvement has been priced into the marketplace, which is one of the reasons the stock market has settled down into a range over the past few weeks. The market should continue trading in a range bound fashion, until the news provides a clearer picture as to whether the green shoots are truly sprouting or they are just weeds from the scorched earth and will wither away.

I believe there are still a number of underlying problems the economy and the consumer are facing. Credit lines of companies credit and the consumer's spending limits on credit cards are being pulled back by financial institutions. The Commercial Real Estate market is facing problems with refinancing of loans that are coming due. Homes are selling at a slow pace, if at all. It appears the majority of existing home sales are forced sales or foreclosures. The consumer has pulled back on spending and increased their savings. At 70% of GDP, if consumer spending falls, it will be difficult for the economy to roll along. The unemployment rate continues to rise. If the unemployment rate were to account for individuals who have given up seeking work, or have accepted a job that pays less than they would normally accept, the rate would be in the mid to upper teens.

The market has had a significant recovery, and I think it should settle down into a quiet range for the foreseeable future. Collecting dividends and yield become the plan for this environment. Government securities, other than Treasuries, offer good opportunities as do Corporate Bonds with maturities in the 5 to 8 year range. The Emerging Markets, especially China, South America and the Pacific Rim, should offer a better return than the US.

I hope everyone is having a wonderful summer. As always please do not hesitate to contact me or your advisor, if you have any questions, or we can be of further assistance.

Warmest regards,

Michael Marietti

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