Q1 2011 Commentary

Since early 2008, when the financial crisis moved into full swing, we have been largely occupied with rapidly changing market conditions. That said, the recent unfortunate events in both Japan and the Middle East/North Africa have not had a detrimental effect on investor sentiment.

We have seen two years of a robust global economic recovery and we hope to see 2011 global GDP remain strong at a level above three percent. Fourth quarter earnings, reported during the first quarter, were superb. The breadth and depth of the companies reporting "good "earnings is remarkable. We see this trend continuing, given the stable economic outlook and a favorable monetary policy by the Fed. We believe that the current forward expectations may still be understated despite the upward revisions in revenue estimates that have taken place over the last quarter.

In the first quarter of 2011, U.S. investors responded to better-than-expected corporate profits and improved domestic economic indicators such as consumer spending and unemployment.

Consumer confidence is now at the highest level since last May. This confidence has translated into increased consumer spending, as demonstrated by a five percent increase year over year in discretionary spending. This is very encouraging. The market has been doing well in an environment where consumer confidence has been low, and moreover, we feel it should move upward as we transition into a higher consumer confidence level.

The first quarter ended with some good news: the Labor Department reported that our economy had added 216,000 jobs, with more than a third of new hires coming from the important category of business and professional services. However, we need to keep in mind that the overall unemployment rate is still around nine percent, and that is still too high.

The unrest in the Middle East helped push commodity prices higher and has added volatility to the market. We see consumers spending more on gasoline and food and less on other items. However, the full effect of higher gas and food prices has not been fully digested into the market, and has the potential to dampen consumer sentiment and spending. The commodity price surge is very similar to 2008. On the surface it looks as if inflation is raging, but beneath the surface lies the continuing deflationary forces that have existed for several years now. The relative strength in the economy is enough to generate modest inflation however, it is not enough to generate very high inflation – not unless we see a boom in the job market.

The quarter ended with a succession of sour notes from the anemic housing market. Sales of existing and new homes fell to new lows and a fear of a housing "double dip" is emerging. New home prices have been depressed by the huge inventory or foreclosed and previously owned homes on the market. And despite a continual low mortgage rate environment, houses are just not selling.

As we move into the second quarter of 2011, we now face three ugly R's – revolution, radiation, and rising inflation fears. We will continue to monitor and evaluate the markets and will take necessary steps to minimize its effect on your portfolios. However, the economy continues to improve and we see the markets moving higher as the recovery continues.

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