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Charlie Ouimette* & Rob Wachholz* Present **Quarterly Economic Update for 1Q 2010**

Quote of the quarter. “Do you know the difference between education and experience? Education is when you read the fine print; experience is what you get when you don’t.” – Pete Seeger

The quarter in brief. The opening quarter of 2010 can be summed up in four words: so far, so good. Despite murmurs warning us of a correction, a double dip recession, and a tepid recovery with sustained high unemployment, stocks were red hot. It was a quarter in which major healthcare reforms became law, the dollar made a comeback, the housing market lagged and the global economy revved up its collective engines. Despite murmurs and warnings that the recovery was going to be weak and prolonged, it was a very positive time for investors.

Domestic economic health. Consumer spending, obviously the prime driver in a recovery, increased by 0.4% in January and 0.3% in February.¹ Consumer sentiment was up and down: in the Reuters poll, it went from 74.4 in January to 73.6 in both February and March, about where it was last September.^{2,3} The Conference Board survey read 52.5 for March, up from 46.4 a month earlier yet below January’s reading.⁴

Inflation was on the minds of investors, but it wasn’t affecting consumers much. The Consumer Price Index went north by 0.2% in January but stayed flat for February. At the end of February, the Bureau of Labor Statistics estimated that we had seen 2.1% inflation over the last 12 months.⁵

Turning to the business side of things, the quarter brought some very good news. From January to March, the Institute for Supply Management’s manufacturing index read 58.4, 56.5 and 59.6; its service sector gauge also went positive in all of those months, coming to 55.4 in March.^{6,7} Durable goods orders soared 3.9% in January and increased another 0.5% in February for a third straight monthly gain.⁸ Retail sales advanced 0.3% in February after an adjusted 0.1% gain in January.⁹

The unemployment rate was 9.7% in every month of the quarter. The notable development: the economy added 162,000 jobs in March, the largest month-over-month surge in payrolls in nearly three years.¹⁰

Another notable development: the health care picture changed in America. The public option died, but the reform bill lived: the House passed the Senate version, with not one Republican voting yes. So in 2014, just about all Americans will have to have health insurance and companies with 50 or more employees will have to sponsor a health plan or pay penalties of \$750 per worker (which could be cheaper than the cost of maintaining a health plan).^{11,12}

Major indexes. The DJIA had its finest first quarter in 11 years, and the S&P 500 had its hottest first quarter in 12 years. The NASDAQ notched its best 1Q since 2006.¹³

% Change	1Q 2010	4Q 2009	Y-T-D
DJIA	+4.11	+7.37	+4.11
NASDAQ	+5.68	+6.91	+5.68
S&P 500	+4.87	+5.49	+4.87
10Yr TIPS Yd	+8.11	-5.13	+8.11

(Source: CNBC.com, ustreas.gov, 4/1/09)^{13,14,15}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

Global economic health. The story that earned the most headlines was Greece. Its government was in debt; it was on shaky ground. As March ended, the European Union indicated a bailout was forthcoming, putting world markets more at ease and perhaps putting out a fire that worried investors all quarter.¹⁶

The more positive story was the surge in global manufacturing. PMI indices were up around the world, and Germany’s index was way up at 60.2 last month. Some other notable March PMI readings

showing growth picking up: Taiwan, 62.7; India, 57.8; South Korea, 55.6; Great Britain, 57.2; China, 55.1.¹⁷

World financial markets. Stock indices in China and Hong Kong (and Portugal and Spain) had a rough quarter. Outside of those regions, other benchmark indices posted quarterly gains. A roll call: DAX, +3.3%; FTSE 100, +4.9%; CAC 40, +1.0%; Nikkei 225, +5.2% (buoyed by a great March of +9.5%); Australian All Ordinaries, +0.2%; RTSI, +6.7%; Bovespa, +2.6%; Sensex, +0.4%; MSCI World, +2.7%; MSCI Emerging Markets, +2.1%. The Hang Seng slipped 3.0% for the quarter and the Shanghai Composite fell 6.7%.¹⁸

Commodities markets. Nickel is hardly precious, but this base metal was the hottest commodity of the quarter, thanks to a drop in inventories and high demand (especially in emerging markets) for stainless steel. Nickel advanced 34.9% on the LME (London Metal Exchange) in 1Q 2010. Gold futures gained 1.5% for the quarter; silver futures rose 4.0%, while platinum futures rose 12.0% and palladium soared 17.4%. How about copper? Another gain: 5.5% this quarter. The U.S. Dollar Index had a strong quarter, gaining 4.1%. As for energy futures, oil gained 5.5% and heating oil 2.2% in 1Q 2010, but natural gas futures fell a miserable 30.6%. The winter was rough on some notable crops: while orange juice gained 4.8% last quarter, soybeans were down 9.5%, cocoa 9.7% and corn and wheat both dropped 16.8%. Sugar did worse: -38.4%.¹⁹

Housing & interest rates. This was the quarter in which the clock ticked – the perception was that time would soon run out for homebuyers to take advantage of federal housing credits and federally-aided low mortgage rates. So what happened? Home sales

weren't that great, leading analysts to wonder what they would be like next quarter without tax breaks and the Federal Reserve buying mortgage debt.

Existing home sales fell 0.6% in February for the third monthly dip in a row.²⁰ New home sales dropped 11.2% in January and then 2.2% more in February to the lowest level on record.²¹ The bright light was pending home sales, particularly the February statistic from the National Association of Realtors: +8.2%, reversing January's 7.6% retreat.²²

Mortgage rates trended slightly downward, at least by Freddie Mac's measure. The average rate on a 30-year FRM was 5.09% in Freddie Mac's first survey of 2010 (January 7) and 5.07% in its April 1 survey. As for movement on other rates, here are the numbers across the same time span: 5/1-year ARMs, 4.44% down to 4.10%; 1-year ARMs, 4.31% down to 4.05%; 15-year FRMs, 4.50% down to 4.39%.²³

Second quarter outlook. Are we on pace for Dow 12,000 or higher and double-digit gains this year? The first quarter of 2010 hints at that direction. Of course, past performance does not indicate future results. However, during years in which the S&P, DJIA and NASDAQ have had positive 1Qs, those indices have notched average annual gains of 12% or better.¹³

So far, the potholes on the road to recovery haven't been that deep - or maybe the market has figured out how to drive around them. Outside of the housing sector, the manufacturing and service sectors are growing and consumers are spending a little more. Notions about the stock market being ahead of the recovery may fade as evidence mounts that the recovery is gaining strength.

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Stock Exchange. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The S&P/ASX All Ordinaries Index represents the 500 largest companies in the Australian equities market. The RTS Index (RTSI) is an index of 50 Russian stocks that trade on the RTS Stock Exchange in Moscow. The Bovespa Index (Portuguese: Índice Bovespa) is an index of about 50 stocks that are traded on the São Paulo Stock, Mercantile & Futures Exchange. The BSE Sensex or Bombay Stock Exchange Sensitive Index is a value-weighted index composed of 30 stocks that started January 1, 1986. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The Hang Seng Index is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. The Shanghai Stock Exchange Composite Index is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. Neither the named Representative nor Broker/Dealer gives tax or legal advice. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. All economic and performance data is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards.

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