

Spring 2011

“Contrary to popular wisdom, future stock market returns are typically the best when contemporary confidence among consumers, businesses, policy officials, and investors is near its worst. That is, investors should embrace others’ fear!” Jim Paulson (April 7, 2011).

The U.S. economy continues its expansion and is broadening across sectors, even if strong headwinds hold the economy’s pace below its historical average. Economic growth with low inflation have sustained solid earnings growth, despite the ongoing weakness in housing activity and elevated joblessness. The economy also took a boost from the extension of the Bush tax cuts and an unexpected cut in payroll taxes, enacted late in 2010.

The equity market reflected the economy’s resilience for most of the quarter, although a confluence of bad news from around the world early in March dented the earlier gains. European debt problems – the latest episode coming in Portugal – weighed modestly on the U.S. markets, but violent events in other regions had the greatest impact.

The main source of concern came from social unrest in the Middle East and North Africa, where waves of demonstrations toppled rulers in Tunisia and Egypt, ignited civil war in Libya, and produced tense standoff on the Arabian Peninsula. The unrest created enough uncertainty about oil supplies that U.S. crude oil prices surged above \$100 per barrel for the first time since September 2008. The price jump is perceived so far as temporary, though the risk continues for more violence and prolonged high prices.

The peak in the social unrest coincided with the natural violence of an earthquake and tsunami, which devastated Japan’s northeastern coast in early March. Uncertainty about the extent of the damage, especially from a crippled nuclear power plant, pushed equity prices lower and bond prices higher around the world, including U.S. markets.

Finally, stock market volatility remains low, as the U.S. economy’s recovery continues and broadens. Of course, the headwinds from housing and unemployment keep the U.S. economy and equity prices susceptible to shocks, especially international events.

Thank you for your trust and confidence. We appreciate the opportunity to provide guidance to your friends and family members as they encounter financial events in their lives. We hope to see each of you at our 2011 Equity Forum on May 19, 2011.