Advisor Economic Update March 2011

In spite of geopolitical turmoil in Egypt and Libya, the domestic economic recovery has continued, leading to higher equity values. The Dow Jones Industrial Average (Dow), Standard & Poor's 500 (S & P 500), and Nasdaq composite were up 2.8%, 3.19%, and 3.04% respectively for March. Small companies, as measured by the Russell 2000 Small Cap Index, had slightly more growth, up 5.4% for the same period.

Bond yields, as measured by the 10-year Treasury were relatively unchanged, with yields of 3.4% at the end of February.

As of the end of February, 480 of the S & P 500 companies reported financials as of December 31, 2010. Earnings and net income for the fourth quarter of 2010 showed increases of over 30% since the fourth quarter of 2009. With these figures, it may not be surprising that equity markets continue to move higher. However, there are still concerns both domestically and abroad.

Domestically, the housing market is still malaise and state budget woes are adding to concerns over unemployment. However, the bigger picture shows continued economic improvement, due in part to QE2 (Quantitative Easing 2) stimulus provided by the Federal Reserve Board in their purchases of long term treasuries.

Overseas, turmoil in the Middle East has led to higher energy prices and rising inflationary concerns. If we see significant inflation, the Fed will want to reduce money supply, (the opposite of QE2), and it is unclear exactly how this scenario would play out. Fed chairman Bernanke said that higher oil prices were unlikely to have a major impact on the US economy, but could lead to weaker growth if sustained.

In short, we feel that equity markets will continue to improve. We also feel that the current, higher energy prices represent a spike, and that longer term, pricing will come back down. We're still "winding out" of the credit crisis from 2007/2008, and should see economic improvement (including housing) as this cycle completes.