



Index	2010 YTD Return
DJIA	4.8
S & P 500	5.4
NASDAQ	5.7
Russell 2000	8.9
MSCI EAFE	0.9
Barclay's Aggregate Bond	1.8
Consumer Price Index	0.8



First Quarter Investment Commentary

The stock market extended its rally during the first quarter, battling back from a steep February sell-off amid continued global economic and political uncertainty. The trends that helped share prices stage a remarkable recovery in 2009 continued to provide a favorable backdrop for stocks. Corporate earnings were stronger than expected and the battered U.S. economy continued its convalescence. Notably absent from the stock rally were individual investors who continued to pour money into bond funds. Most sectors of the U.S. market saw good returns with the broad-based S & P 500 index up 5.4%. Foreign markets lagged significantly with indexes up anywhere from 1 to 3%.

Where We Are Today

A year ago, the stock market had just started its rebound from the depths of the worst bear market in almost 80 years. The powerful rally in "risk" assets over the past year is certainly comforting, and we take some satisfaction in the returns we've achieved for our clients since that time. However, we remain quite concerned, and our assessment of the key macro issues and risks that the global economy must deal with in coming months and years has not changed. Though the worst case of a great depression has been avoided, the global economy continues to struggle in the aftermath of massive wealth destruction and a hard stop to the decades-long trend of expanding indebtedness. Many sectors of the global economy still must reduce debt (or at least, debt growth) and spending levels, including: households in the United States and a number of developed countries, state and municipal governments, most developed country

governments, as well as some lesser developed countries (e.g., Greece), and the residential and commercial real estate sectors.

There is a simple reality to this process of deleveraging. If debt is being reduced instead of expanded, the money has to come from somewhere and it is spending that will take most of the hit. In addition, some debt will be reduced via defaults which harm lenders – there is no painless way for an economy to de-lever. This process is likely to take several years, during which economic growth will be subpar. During this period, financial fault lines are likely to remain stressed, leaving us cognizant of heightened risk.

Investment Strategy

As already noted, we continue to see a slow and fragile economic recovery with more than normal amount of uncertainty. In addition to deleveraging issues, we know that there are other factors such as dramatically increased taxes on the “wealthy” and political disharmony (both domestically and worldwide) that will have profound economic consequences. When and how these negatives will impact the investment environment is hard to tell. All we know for sure is that they eventually will. In the meantime, the markets have reacted to positive factors, some of which might continue to drive investments for a while. These include the continuation of unprecedented fiscal stimulus, inventory restocking, and continued low interest rates. Additionally, corporations have dramatically reduced their cost of operations which means that even a modest pick up in their revenue could drive a large increase in bottom-line profits. Business conditions are clearly continuing to improve, though the trend is not uniform.

From the time we started reinvesting from the record levels of cash in the fourth quarter of 2008, we have stayed with the higher end of quality in all areas of investment – the idea being that we would capture a good deal of the upside but give decent protection on the downside in the case of disappointing economic events. This is the strategy we will continue to follow. Currently, no single asset class offers a compelling advantage. We do continue to de-emphasize small cap stocks for all but our more aggressive investors. In our foreign investments we are emphasizing emerging markets, as they should experience much greater growth than developed countries. Most of these economies did not get involved in the debt bubble and are in good financial shape. We have increased exposure to investments that aim to give positive returns independent of classic asset classes such as stocks and bonds. Our goal in this area is to employ investments that have a high reward versus the level of risk taken (known in the trade as a high “Sharpe ratio”). In the fixed income area, we are maintaining a relatively short duration – we are not getting paid for risk in terms of quality or duration and thus, we are investing in higher quality and shorter duration investments. As always, we stand ready to adjust our investments in line with economic and market changes.