

## 1<sup>st</sup> Quarter 2009

The first quarter of 2009 has come to a close with a ray of hope shining thru the murky clouds. I thought it would be nice to read something enlightening instead of the doom and gloom that is currently prevailing in reports. The S&P 500 finished the quarter down 10.98 %. On the lows, it was down over 53 %. It has recently gained 26 % from that level. The Obama administration has realized that they need to instill confidence in both the economy and themselves in order to lead us out of this economic mess. They have begun to change their rhetoric to emphasize that their proposals and changes will have a positive effect.

Time is still the key to the recovery. As I have mentioned previously, the money that is being pumped into the system needs time to have an effect. Credit is slowly beginning to loosen. LIBOR, our favorite measure of fear, has fallen and Corporations are beginning to tap the lending markets once again. The Federal Reserve, along with other Central Banks, has instituted Quantitative Easing. This ZIRP (Zero Interest Rate Policy) will bring financing rates lower. Whether it is mortgage rates, currently the object of their attention, or corporate borrowing rates, borrowers will find rates more attractive than in recent months.

The markets are beginning to factor all of this in. Bad news is being digested and being discounted. The equity markets are beginning to become forward looking and attracting some bargain hunters. All of this has brought some of the money that has been idled on the sidelines back into the markets. Investors are beginning to stomach some risk in their portfolio by dipping back into equities. This is not to imply that the stock market is about to explode. Rather, I think that the market are beginning to form a base and will spend time trading in a range until there is enough confidence about what is ahead.

The Dow Jones Industrial Average has bounced from 6600 to over 8000. I expect that it will remain in a range of 6900 to 8200 thru the end of the quarter, attracting buyers near the low and sellers at the upper end. Investors should look to buy on the dips and book profits above 8000. I foresee more tactical trading as the markets gyrate up and down in the range. I still believe Large Cap Growth and Technology will be among the best performers. Large Cap companies should be able to handle funding needs better than Small or MidCap sized ones, and could also help customers with funding needs if the situation arose.

There are still some dark clouds on the horizon. Unemployment, usually a lagging indicator, may become a leading indicator if it rises enough. If people become more concerned about their jobs, they will alter their spending habits. Credit card delinquency is slowly rising and credit card companies are pulling back unused lines. While home sales have risen, it is being driven by foreclosure sales and prices are still dropping. With the onset of the recession, State tax receipts are down and budgets are unbalanced. Local school districts have taken a hit due to the falling real estate values, this will lead to an uptick in state tax rates, on top of those from the Federal level. Also, with all the dollars being spent by the government, inflation will become prevalent again in the future.

So, where to invest? For Fixed Income, Corporate Bonds with a 4- 7 years maturity, yield 5-8%. By choosing strong names with good credit ratings, an investor can look to hold these to maturity to get their principal back and not be overly concerned by the rate fluctuation. Also Municipal Bonds offer a tax advantaged, steady stream of income. The biggest risk to a portfolio, over time, is the eroding effect of inflation. TIPS (Treasury Inflation Protection Securities) adjust their return to account for the effect of inflation. These are overpriced currently due to the ZIRP, but should be added to portfolios as prices drop. For Equities, Large Cap Growth and Technology are attractive sectors. Globally, the Pacific Rim should continue to see growth. China should grow at a rate greater than most other countries and neighboring countries should benefit from that. Also if inflation develops, commodities should see an uptick in prices and should benefit countries that export commodities like Brazil, Australia and Canada.

In summary, there are opportunities developing in the marketplace. Diligence and patience are necessary to implement the strategy that will reward a long term investor. Except for Treasuries, Fixed Income rates are attractive and offer an enticing return to complement the equity portion of a portfolio. The markets should continue to be volatile and range bound, but as the stimulus packages begin to take hold, the economy should begin to eventually recover. Keep an eye on unemployment, consumer confidence and home sales to gain a better picture of how the economy is developing.

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