



SECOND QUARTER PERSPECTIVE April 7, 2010

As the poet said, "If winter comes, can spring be far behind?"¹

2010 started off well for investors, continuing 2009's positive returns in the stock and bond markets, albeit at a more moderate pace. The big picture scorecard? The S&P 500, a proxy for large cap US stocks, is up about 77% from its March 9, 2009 low (total return, including dividends). However, the index is still down about 21% from its October 2007 high.

For our market review, we're sharing a piece by Bob Veres, a financial journalist whose newsletter for advisors, *Inside Information*, is a must-read in this office. Bob's writing for consumers now, and we're delighted to share his work with our clients.

We've also enclosed a summary and timeline, compiled by the FPA, of the new health care law. While lengthy, the piece gives a good overview of what happens when; we hope you find it helpful. -- Karen, Joe, & Therese

Quarterly Market Review: The Uptrend Continues

Economic forecasters sometimes describe the investment markets as a leading indicator, which means that they believe returns can anticipate good or bad economic news. Share prices fall when investors expect a recession, and rise when a recovery is expected--and last year's stock market growth seems to fit that pattern. The market rose last year harder and faster than anybody expected, and so too, later, did the U.S. economy. On March 26, the U.S. Bureau of Economic Analysis reported that the U.S. gross domestic product increased at an annual rate of 5.6% in the fourth quarter of 2009, after a 2.2% increase in the third quarter.

Nobody knows how we, the community of investors, could have known, during the darkest hours of March 2009, that better economic times were around the corner.

The U.S. equity markets were generally higher across the board in the first quarter of 2010, which is a terrific contrast with where we were at this time last year. Indeed, CNNMoney.com reported yesterday that the returns for the first three months of this year ranked among the best first quarter performances in more than a decade.

Wilshire Associates reports that the Wilshire 5000 total market index, the broadest indicator of U.S. stocks, was up 6.42% in the first quarter of this year. Most of the action came in the month just ended. The Wilshire index was actually slightly down for January and February, but March produced a 6.61% rise in the index. The Russell 3000 index, another broad measure of U.S. stock returns, rose 5.94% for the first quarter of 2010, bolstered by a 6.30% return in March.

All was not quite as positive on the international front, where stock returns of different countries seemed to be everywhere. Alas, we missed the strong stock market rally in Estonia (up 44.7% through 3/25/10, according to the EmergInvest web site) and the 26% runup in Kenyan stocks in the first quarter. But we

¹ Percy Shelley, Ode to the West Wind

also cleverly avoided the 32.2% drop in the Bermuda stock market in the first quarter (through 3/30). Among the surprises: China's A Shares Index dropped 2.6% while Japan was up 6.3% in the first three months of the year.

The EAFE index, the broadest measure of developing nations, reported a relatively calm-looking year-to-date return of 0.22% on the MSCI/Barra web site, and the Far East index was up a robust 6.29% for the quarter. Emerging markets were up 2.11%. Meanwhile, government deficit troubles in Greece, Spain and Ireland, and to a lesser extent in Italy cast a shadow over the European economies. European stocks in the MSCI index were down 2.33% for the quarter.

All of these returns are in dollar terms, and it bears remembering that, due to the debt crises across Europe, the euro fell 6.23% vs. the dollar in the first three months of 2010--which means that in euro terms, to investors in Germany or France, the European markets are up nearly 4% so far this year. If the euro strengthens against the dollar at some point in the future, foreign stock returns will be boosted accordingly.

Real estate continued a recovery that began in 2009 after two very difficult years. The FTSE NAREIT Index, which is compiled by the National Association of Real Estate Investment Trusts, experienced a total return drop of 17.83% in 2007 and fell another 37.34% the following year. But in 2009, the broad real estate index rose 27.45%, and recorded a 10.60% total return in the first quarter of this year.

Even bonds offered positive returns. The Lehman U.S. Aggregate Bond index was up 1.64% for the first three months of 2010, and Treasury bonds started the year on a positive note. Government bonds of 1-3 year maturity returned 0.93% on yields of 1.04%; 3-7 year Treasuries were up 1.24% for the quarter on yields of 2.52%. 10-20 year Treasuries were up 1.27% on 4.29% yields, while long Treasuries of more than 20 year maturities declined 0.51% on yields of 4.73%.

Commodities, as measured by the Dow Jones-UBS Commodity Index, were down 5.05% in the first quarter, but once again this overall trend masks a lot of varying performances. Crude oil was up 3.44% for the quarter, gold was up 1.43%, but corn prices were down 19.43%.

Nobody knows whether this sunny investment climate will continue, or whether the strong market returns over the past 12 months will give way to a new bear market. However, one indicator suggests that we may not be walking blindly into another frightening meltdown like the one we all experienced in 2008 and the first two months of 2009. The Chicago Board of Options Exchange measures volatility in the stock market by its VIX index--which is more precisely an expectation of volatility and risk over the next 30-day period, and is sometimes called Wall Street's "fear gauge." On November 20, 2008, the VIX index hit a ten-year high of 80.86, according to data compiled by the IMCA-RC web site. On March 23, 2010, the VIX index closing price stood at a more historically normal level of 16.35.

Thanks to a positive uptrend in March, this quarter's market returns represent one of those unusual periods when just about everything went up. Just a year ago, people were talking about the collapse of civilization, and six months ago there were worries that the economic stimulus package would not be enough to get the U.S. economy moving again--that the country was headed for a double-dip recession.

The economy won't be fully recovered until jobs come back, and the recent stock market rises haven't yet taken us back up to the levels before the Great Recession swept through like a hurricane. But people who were nervously sitting on the sidelines over the past year, and the past quarter, missed out a nice rally. Let's hope it continues. -- Bob Veres

Shorts

- **Long Term Care Insurance and Health Care Legislation.** The new health care reform law (officially, the Patient Protection and Affordable Care Act) includes a provision that has garnered little media attention but could impact how working people purchase long term care insurance.

According to an article on 03/24/10 in The New York Times by Paula Span, the bill includes the creation of a new, voluntary long term care insurance program that will be run by the federal government and offered via employers. Employees who choose to participate will pay monthly premiums, and after five years, will be eligible for benefits if they need care. According to Span, the insurance isn't designed to cover the whole cost of long term care, but will provide "substantial help".

The provision goes into effect this January, so stay tuned for details on how this will work, who and what it will cover, and how much it will cost.

- **Happiness-equivalency and Money.** It seems to us that there's suddenly been an exponential increase in the number of articles on happiness research. Here's a good one by David Brooks (of the PBS Newshour, and The New York Times). Before reading, take a guess: what does research show is the dollar-equivalency, per year, of a happy marriage? The answer: <http://www.nytimes.com/2010/03/30/opinion/30brooks.html>
- **Staff news.**
 - Karen has been named Treasurer of the Women's University Club. She's been a member since 2002, and is happy to volunteer her expertise for this 96-year-old Seattle institution.
 - In his role as President-Elect of the Financial Planning Association of Puget Sound (FPA), Joe hosted a meeting in our offices with a Special Assistant to Congressman Jay Inslee to discuss the need for regulatory reform in the financial industry.
 - Therese served as a panelist on the topic of Roth IRA conversions at the March FPA chapter meeting; she also volunteered during the NAPFA/Kiplinger's Personal Finance "Jump Start Your Retirement Planning Days", a nationwide event that provides consumers with free financial advice over the phone.
- **We're Number...6?** TurboTax has ranked Seattle #6 in a nationwide count of late tax return filers, according to a recent article on CNN/Money.com. The company counted people filing returns last year between April 14 and 17 using its online filing service to come up with this statistic. The leading procrastinators? #1 Houston, #2 Chicago, and #3 New York City.
- **Privacy Notice.** Our Privacy Policy follows on the next page. We're required by law to send you this annual notice, and are happy to do so to give you confidence that the information you share with us is being protected.



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Personally identifiable information about you will be maintained during the time you are a client, and for the required time thereafter that such records are required to be maintained by federal and/or state securities laws.