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Dear Valued Investor:

We are between the quarterly earnings report seasons and that has left markets free to fret about all sorts of things – economic reports, government policy announcements and actions, bankruptcy filings, various scandals, etc., etc. Right now it appears that we are "climbing the wall of worry".

Absent earnings reports for the second quarter, U.S. equity markets have been staging a jittery recovery from the early March lows with the S&P 500 and the NASDAQ now showing positive returns year-to-date, while the Dow is still a bit below. Sector earnings reports generally improved in Q1, but Financials, Energy, Materials, and Consumer Discretionary are only back to near zero earnings per share from huge Q4 losses. Consumer Staples, Technology, Healthcare, Telecom, and Utilities avoided Q4 losses and staged modest rebounds in Q1. I expect, generally speaking, further improvements in Q2 earnings reports—the silver lining to the cloud of weak economic reports.

It looks to me that incoming data, policy actions, and other events have been less negative than expected with the economy starting to bottom out. For example, through April, real after-tax personal income was up 3.7% over the last 12 months! That is an astonishingly high number given the recession. However, consumer spending was down 1.9%—a very weak number that reflects households' returning to the "old fashioned" virtue of saving. The personal savings rate has "soared" to 5.7% from near zero in recent years. This is a good thing. As you know, I am an advocate of saving and investing and while this is a difficult transition, I think we are headed, at least in the private sector, to a better, safer place. I expect another drop in GDP this quarter and then a flat third quarter followed by a return to growth in the fourth.

Bond markets continue to heal with Investment-Grade Corporate Bonds, Corporate High Yield bonds, Municipals, and most other non-federal debt indices rising in price. Treasury debt has been falling recently, but I view that as indicating renewed investor appetite, albeit modest, for risk—selling less risky Treasury debt and buying corporate and other sector bonds. Interest rate spreads, while tighter, still to me look attractive.

GM filed for bankruptcy last Monday, overdue in my opinion. I do not believe the apocalyptic forecasts that this event will cause a huge rise in unemployment and wreak havoc on the economy. Unlike many U.S. non-financial corporations, GM has been in trouble for years with all sorts of management, labor, and other issues that were not being addressed. Hopefully they will be now—nothing like the cold shower of bankruptcy to focus attention on longstanding problems that need to be corrected. I just hope that we taxpayers will see a return of our many billions that were put into the company this year.

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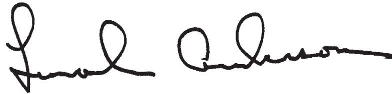
Where to now? Well, I expect more jitters. This is a global recession, and there are serious problems around the globe. U.S. imports of goods have dropped an astonishing 33% over the last three quarters. A turnaround in the United States is important to the global economy. Despite reports to the contrary, we continue to fill the role of the global growth locomotive. U.S. equity and bond markets do not look overvalued to me. While we have had a substantial rebound, we are still many, many percentage points from the previous peak. As always, please call your financial professional with any questions or concerns.

Best Regards,



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