



BROADWAY INVESTMENT MANAGEMENT GROUP

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REVIEW AND OUTLOOK *First Quarter 2009*

Market Overview

Investors looking for winds of change in the financial markets in the first quarter of 2009 were less than impressed with the first two months of this year. The equity markets continued an all too familiar theme influenced by fear and high volatility. Through the end of February the S&P 500 had declined 18.18%.

The month of March provided a hint of optimism as the broad equity market gained 8.76% for the month. The positive market performance was the result of increases in consumer spending in January and February and better than expected housing data in February with increases in housing starts, permits and existing home sales for the month.

During the month of March the Information Technology, Materials and Consumer Discretionary sectors were all up by double digit percentages, but probably the most surprising performer was the Financials sector which was up by 13% for the month. First Trust Advisors L.P. reported that 114 out of the 134 subsectors of the S&P 500 posted gains in March compared with only 14 positive subsectors for February.

The S&P 500 declined 11.01% for the quarter while the blue chip Dow Jones declined by a slightly higher 12.48%. The Information Technology sector was the only sector of the domestic market to post a gain in the first quarter with a return of 3%.

When selecting companies in which to invest in the technology sector we focus on firms with a healthy balance sheet, a strong competitive advantage and a sustainable growth rate. Some examples of stocks in the Information Technology sector held in Broadway portfolios which performed well for the quarter include the following: Apple, Inc +23.16%, Amphenol Corporation +18.89%, International Business Machines +15.13% and EMC Corporation +8.88%.

While the mood of the markets in the first quarter was not rosy, it was certainly less gloomy than the preceding quarter. Argus Research Company noted that leadership in the market has swung away from defensive names and toward early recovery sectors. Leading equity groups include precious metals, basic materials, industrials and consumer discretionary which are necessary building blocks in anticipation of demand recovery in the economy.

Economic Review

The first quarter of 2009 ended very differently than it began. As was to be expected after the challenges faced last year, the year began with more waves of challenging economic news. Investors were forced to digest vast amounts of information including a fast-increasing unemployment rate, unprecedented government spending, and the potential for bank nationalization, just to name a few.

The unemployment rate grew to 8.5%, its highest level since November 1983. Since the start of the recession in December 2007, the U.S. economy has lost over 5 million jobs. Rising unemployment is a significant contributor to the reduction in consumer spending and a waning consumer confidence. According to the Conference Board Consumer Confidence Index™, consumer confidence reached an all-time low in February (the Index began in 1967). Consumer spending, which makes up more than two-thirds of economic growth, will likely not begin to increase until unemployment improves.

So far, the total value of all direct spending, loans and guarantees in conjunction with the federal government's financial stability efforts, including those of the Federal Deposit Insurance Corporation (FDIC) as well as Treasury and the Federal Reserve Board, now exceeds \$4 trillion. Although this rapid growth in spending may help stimulate economic

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growth in the short-term, this will likely cause higher inflation and ultimately force the Federal Reserve Board to consider raising interest rates. When the economy eventually begins to recover, the Fed will be faced with the difficult task of reducing the monetary stimulus while preventing a secondary economic decline.

With all the challenging economic news, there were also some reasons to be optimistic. Oil costs remain relatively low compared to 2008 and the U.S. trade deficit improved in February as a result of increased exports and a decline in the level of imports. This will be an overall contributor to economic activity and help cushion the housing recession which is also showing signs of stabilizing. Housing starts increased 22 percent in February ending the longest consecutive period of monthly declines in almost 20 years. Sales of existing and new homes also grew in the first quarter and new home building permits rose – a positive sign of future activity.

Among the many programs installed by the government in attempt to stimulate economic activity was an effort to lower mortgage rates in order to increase home refinancing. Corporations have also been working to reduce inventory levels which will put them in better position to take advantage of an economic recovery. Finally, consumer spending has shown signs of stabilizing.

So how are we dealing with the current environment? First it is important to realize that Wall Street tends to lead Main Street. Whether we are on our way out of this recession can only be answered well after the fact. As an example, it is not unusual for the unemployment rate previously mentioned to continue to worsen even after the economy has begun to improve. The investment implication is to be proactive and prepare rather than try to predict. Given the challenges leading up until now, there are many compelling opportunities.

The past eighteen months have challenged the risk tolerance of most investors. In the previous 4 or 5 years, a good economy and healthy markets created an environment of comfort. The last one and a half years have likely led to an over sensitivity to risk. To prepare for the future every investor is encouraged to reassess their risk tolerance in conjunction with their long-term goals. We encourage you to engage in open conversations with your Wealth Advisor and Portfolio Manager to assist you in this regard.

Index	YTD	1 Year	3 Years
Dow Jones Industrials	-12.48%	-35.93%	-9.50%
S&P 500 Index	-11.01%	-38.09%	-13.04%
EAFE*	-13.96%	-46.34%	-14.05%

*EAFE = Europe, Australia, & Far East International Index

2 Year Treasury Bond Yield as of 3/31/09	0.80%
2 Year Muni Bond (AAA) Yield as of 3/31/09	.97%