

REVIEW AND OUTLOOK

First Quarter 2010

Market Overview

One of the main questions on investor's minds at the beginning of 2010 was whether the strong equity performance experienced in 2009 was an aberration or a prelude to sustainable market growth. Could the equity markets keep up their feverish pace in light of the impending healthcare reform legislation, a high level of unemployment and a tight credit environment?

The U.S. equity markets continued their rally in the first quarter of 2010 as the S&P 500 achieved a 5.4% return and had risen approximately 75% from its low on March 9, 2009. Although the quarter ended with strong performance it was anything but smooth sailing to start out the year. In January the S&P 500 declined by 3.5% as the expectation of higher healthcare costs, continued job losses and rumors about a European sovereign debt crisis caused investors to pause and lock in gains earned in 2009. Equities moved higher in February with a 2.6% return and were exceptionally strong in March as the S&P 500 posted a 6.0% return.

There was much written in the first quarter about the period between 2000-2009 having been a "lost decade" for the equity market because bonds outperformed stocks during this time frame. For this period the Barclays Capital Aggregate Bond Index averaged a 6.3% return versus a -0.9% return for the S&P 500 (according to USA TODAY). There have only been two other time periods where bonds outperformed stocks for an entire decade, the 1930's and the 1970's. In both instances stocks rebounded in the following decade to outperform bonds by an average of 10%.

This historical performance data in addition to ample amounts of cash on the sidelines and the fact that the current market rally is occurring early in the U.S. economic recovery cycle are promising signs we may be entering a phase of sustainable equity performance.

Healthcare Sector

One of the most news worthy events in the first quarter of 2010 was the passing of the healthcare reform legislation in March. According to a report by Northern Trust, the Patient Protection and Affordable Care Act will increase healthcare coverage from about 83% of the population to 94% or provide coverage to approximately 25 million additional Americans. The previously uninsured who avoided routine care in the past will now seek those services under the new law and increase the overall cost of healthcare coverage. The Congressional Budget Office estimates the cost of the legislation at about \$900 billion. The new law calls for half of the cost of the plan to be recouped through tax increases that are estimated to raise \$517 billion over 10 years.

Questions remain on how the new plan will affect firms in the healthcare sector. While achieving a positive return of 3.4%, the healthcare sector underperformed the S&P 500 in the first quarter most likely due to uncertainties about how the final version of the law would be constructed. While passage of the bill will undoubtedly increase costs of doing business for many healthcare firms it may turn out to be a slight positive for the sector as an increase in covered individuals should translate into higher revenues for many firms in the healthcare sector.

Within our client portfolios we remain slightly overweight healthcare due to the high cash-flow nature of the sector and a continued belief that the aging of the baby-boomer population will support long-term growth expectations. Healthcare stocks in our portfolios that performed well in the first quarter include Bristol-Myers Squibb (+7.0%), Express Scripts (+17.8%) and Thermo Fisher Scientific (+7.9%).

Economic Review

Consumer confidence? These are two words that we haven't seen used together very often over the last two years, but as the stock market continues to rally and we receive improving economic data it appears consumers are beginning to believe in the recovery.

As we have noted in the past, household spending accounts for about 70% of the economy and is vital for a continued recovery and a return to expansion of the U.S. economy. In March we received the news that consumer spending rose in February for the fifth consecutive month. In order for this positive trend to continue consumers must feel confident about their jobs.

On the labor front, reports show that the U.S. economy added 162,000 jobs in March which is the largest increase in three years. January and February payroll data were also revised upward. After the revision, January showed a small gain in jobs and February showed a loss that was only half of what was reported earlier. Although this payroll report was positive news and confirms the economic recovery is beginning to take hold, the unemployment rate remained unchanged at 9.7%. According to Blackrock Inc, it would take an increase of 115,000 jobs per month just to keep the rate of unemployment at its current level.

The economy also received positive news from the manufacturing sector in March as the Institute for Supply Management's (ISM) manufacturing index rose to its highest level since 2004. Increases in the

supplier delivery time and inventory components of this index are of particular interest as they indicate demand has reached a point where production needs to be increased in order to restock shelves.

Regardless of the amount of positive economic data received in the first quarter the Federal Reserve kept the federal funds interest rate at a range between 0 – 0.25% at their most recent meeting in March. Even though gross domestic product (GDP) has grown for the past two quarters and is estimated to have grown 2.8% (Bloomberg News) in the first quarter of 2010 the central bank remains committed to keeping rates low because there is little evidence of rising inflation and unemployment remains at an elevated level.

In conclusion, while it is clear the economy has begun to improve it remains to be seen how much of the improvement is due to government stimulus versus sustainable organic private sector growth. We continue to diligently monitor the financial markets and political landscape in order to help you meet your long-term financial goals.

Index	YTD	1 Year	3 Years
Dow Jones Industrials	4.8%	46.9%	-1.5%
S&P 500 Index	5.4%	49.8%	-4.2%
EAFE*	1.0%	55.2%	-6.5%

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

2 Year Treasury Bond Yield as of 3/31/10	1.02%
2 Year Muni Bond (AAA) Yield as of 3/31/10	0.79%