

The Economy

April with its showers and tax filing deadlines has passed with our economy continuing to strengthen. Consumer spending (that's us), which accounts for about two-thirds of U.S. economic activity, rose in March and likely increased modestly in April (there is a data lag of a few weeks). This increase in spending came in spite of continuing difficulty in the job markets. Employment increased with jobs growing by modest amounts, but unemployment rates remain near 10% and are not falling in appreciable increments.

The government reports an improving economic picture, albeit a fragile recovery from the recent recession. White House spokespeople and the Federal Reserve both suggest that continuing government sector assistance is needed to maintain the recovery. The Federal Reserve met in April and kept its low interest rate posture, and apparently intends to maintain this policy for the foreseeable future.

Construction spending unexpectedly rose in March (another data lag), housing activity was fairly active (perhaps in anticipation of the expiration in government incentives on April 30), auto sales rose (also propped-up by incentives) and general manufacturing increased – although without significant jobs creation. There is idle or excess capacity in the manufacturing sector that is currently allowing some expansion without adding jobs.

The Stock Markets

The U.S. equity (stock) market (S&P 500) rose very modestly in April (S&P 500) and was up about 8.5% for the first four months of the year. This increase came in addition to the fantastic rise in equity prices for the last ten months of 2009. The industrial and consumer discretionary sectors led the increases while telecom, utilities and healthcare lagged behind.

The developed foreign markets declined about 1.5% during the same four months, dragged down by several factors including concerns about financial affairs in Greece and perhaps including Spain and Portugal. Greece, in particular, seems like a small fish in the large pond of the world economy, but this situation may be a reminder of the continuing fragility of the big picture and the recovery from the recession and scares of 2008.

The Bond Market

Although interest rates remain at historically low levels, the bond market has held its own and increased very modestly so far this year. There has been a little increase in intermediate to longer term yields (interest rates) while short-term rates have remained very low. The be-

nign nature of the bond market is likely a result of the government's continuing intervention in support of economic activity, fairly light business and consumer borrowing, and the resultant modesty in inflation expectations.

There is continuing and growing concern about our exploding federal deficits and their eventual effects on many economic variables, but these concerns have not manifested themselves in the various markets. The dollar has had recent increases in relative value – likely as a result of concerns about the euro and the situations in Greece, Spain and Portugal.

Some Parting Thoughts

We at TD Capital continue our general theme of reducing risk in our client and model portfolios. Our biases in categorical selections include:

- High quality in both bond and equity holdings.
- Some reduction in total and general equity exposures.
- An increased allocation to a conservative absolute return strategy.

We do not foresee disasters in the immediate future, but are taking an intentional lean in the direction of protection. The last fourteen months have seen significant increases in both equity and fixed income positions and the risk of loss increases as prices rise.

We are in the second month of implementing a more tactical fixed income approach to the bond side of our portfolios and anticipate a third reduction in general equity exposures in the next sixty days or so.

We continue to believe that the general equity markets are modestly overvalued. Asset prices can remain at high valuations for extended periods of time, but higher prices indicate more risk of loss as well as constraints on expected returns.

Implementation of our strategies requires a concern and integration of the tax effects of our efforts. Please send us a copy of your 2009 tax return(s), or instruct your tax preparer to do so right away.

We hope all is well with you and yours. Please call or come see us when you can.

Faithfully,

Doug

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