

Quarterly Commentary

April 2010

The first quarter of 2010, and the first quarter of the new decade, looked something like the calm after the storm. Equity (stock) markets were generally positive for the quarter – up in the 4% - 6% range depending on your choice of indexes. Interest rates remained at historically low levels (in fact, fell a little) – short-term rates are extremely low with money market and short-term CD's yielding less than 1%. Longer term yields were generally about the same at the end of the quarter as the beginning. As a result of these fairly static interest rates, bond or fixed-income investments gained an average of about 1% to 2% for the quarter.

Drilling down a little – smaller company U.S. equities were up in the 8% - 10% range while larger company U.S. stocks were up about 4% - 6%. Developed country foreign equities were up about 1% and emerging markets equities had positive returns averaging around 2% - 3%. Going down a little further – commodities were generally negative about 4% (mostly oil), utilities were down around 2% - 3%, gold was up about 1%, and real estate funds gained in the 10% range.

So, it was a fairly calm quarter when diversification was worth the effort since return averages were pretty pleasant, but not consistent across various asset classes. March 2010 marks the anniversary of the low point of the equity markets in early March 2009. Since that point overall increases have been in the phenomenal range. We anticipated some return to more normal valuation levels, but certainly would not have predicted such steep and steady increases.

None of the return numbers above are drawn from precise calculations, but rather are intended to paint a general picture of the investment results of the quarter. No returns can guarantee or predict future returns, and investing involves risk – including the risk of actual losses.

Our metric and valuation tea leaves suggest that the equity markets have generally risen far enough above their normal or “fair” values that we are beginning to have some concern about sustaining the current levels indefinitely. We reduced general equity exposures in October 2009 and again in the first quarter of this year. Over the next three months or so we anticipate reducing equities in our portfolios a little more to reduce the risk associated with the current (fairly modest) overvaluations. We also intend to move toward a slightly more “strategic” situation on the fixed income or “liquidity” sides of our portfolios.

We remain confident that long term returns will be sufficient to accommodate reasonable cash flow expectations and portfolio growth. We do not anticipate above-normal returns over the near-term. We are more than ever convinced of the efficacy of long-term investing and portfolio diversification with a modicum of tactical movements to recognize measurable risks and opportunities.

Respectfully submitted,

Doug

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