



Market Commentary – First Quarter 2011

The US Stock Markets had a very good first quarter, with the S&P 500 up 5.4% through March 31. Growth in corporate earnings, and economic stability fueled by the Federal Reserve, were the primary drivers to growth.

There were significant international shocks. First, our hearts go out to the people of Japan. We wish them the best in their efforts to recover from the devastation caused by the earthquake.

International markets dropped and recovered as events unfolded in Japan, and in North Africa (Egypt, Libya). For patient investors, the major themes of a weaker dollar and higher prices for gold, oil, and other currencies demonstrated the benefits of diversification achieved with internationally balanced portfolios.

In this unusual environment where money market accounts are paying almost nothing, it can be a bit frustrating to see cash in accounts. Cash positions may have dampened portfolio returns somewhat, but currently we believe cash and equivalent short term positions are prudent. Holdings in cash and similar high quality/short duration bond funds are important to balance the risk that occurs from being in equities (stock funds).

Longer term bonds have performed admirably as interest rates have fallen over the past few years and decades. Barring deflation, rates presently have nowhere to go but up – however, we do not know when this will happen. We remain cautious with respect to longer term bonds as they carry significant interest rate risk. If interest rates increase, as we expect them to, longer term bonds will suffer an immediate loss of value.

Going forward, we believe it best to keep growth-oriented investments in equities, and fixed income assets at a lower risk. Let's hope that the economy can continue its recovery.

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