
MARKET COMMENTARY

- On **March 6, 2009**, the S&P 500 reached a level of **666.79**, which many believe will prove to be this cycle's bottom. On that day, the various stock market indices posted a year to date market value loss that was already in excess of **25%**.
- Since that day, global stock markets have recovered much of the sell off, while remaining somewhat below the levels at which they began the year. For some indices, the recovery has been in excess of 30%.
- Is this merely another "bear market rally" soon to be rendered invalid by the overwhelming amount of negative sentiment and economic data? We believe that investors should be prepared for two things: a) the continuation of this rally well past expectations and b) another sell off of some magnitude later this year.
- We are concerned about the condition of European banks. We remind investors that the outcome of the "stress tests" on American banking institutions will not be known until the end of April. Thus, if the key to a sustained recovery is the restoration of stability to the global banking system, much work remains ahead.
- We do not fear, however, of a systemic collapse. For that, we owe a debt of gratitude to our policy makers. While some of their actions have been controversial, we believe that their responses were appropriately aggressive. We believe the market will shift its attention away from stabilization and toward renewed growth.
- While Fed Chair Bernanke's "green shoots" of recovery become more prevalent, we continue to approach this market with caution as numerous issues remain unresolved. On balance, however, there is ample justification for a growing sense of optimism.

Note that all charts, tables, and graphs utilized in this analysis were obtained from the Bloomberg Financial Markets system unless otherwise indicated.

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TEN SIGNS OF IMPROVEMENT/RECOVERY

1. Corporate bond spreads have tightened dramatically since November 2008. Both LIBOR and the TED Spread indicate credit markets are functioning better. Credit default swap spreads have also declined.
2. Early indications are positive for the Fed's new TALF program.
3. Mortgage rates in many regions of the country have fallen below 5%.
4. The Conference Board's index of leading economic indicators has risen for two months in a row.
5. Producer prices have been increasing; inventories are being restored.
6. The Baltic Dry Index, which measures the cost of shipping key raw materials like copper, steel and iron, has more than doubled from its lows.
7. Applications for both new mortgages and refinancings of existing mortgages are rising.
8. The ISM index of manufacturing seems to have bottomed.
9. The ISM index of services rose for the third month in a row.
10. The money supply is soaring, a sign that there's plenty of liquidity in the economy.

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WHAT SHOULD INVESTORS DO DURING THESE UNCERTAIN TIMES?

We favor business models and asset classes that do not depend on leverage. Until we emerge from this recession, we also favor business models that depend on non-discretionary income as opposed to discretionary income. We currently prefer credit over equities:

1. **Risk spreads provide good income and long term rewards:** the yield spreads currently available in **high grade corporate bonds** are compellingly attractive.
2. **Protect against rising taxes:** likewise, the nominal yields available in **high grade, tax free municipals** are attractive. If tax rates rise as expected, municipals will only increase in their appeal as an asset class.
3. We favor **gold** as a hedge against devalued currencies.
4. As a hedge against inflation, we recommend instruments like **TIPS (Treasury Inflation Protected Securities)**. We have confidence that recent policy measures will prove successful in reinvigorating our economy. In that event, we believe investors will need to hedge themselves against latent inflationary pressures.
5. Equities: Remain **defensive**, but think long term and be **opportunistic**: the panic has rendered attractive many high quality companies with stable cash flows, solid balance sheets, and good business models. We prefer stocks with attractive dividend yields. Position accounts with an emphasis on capital preservation. However, do not abandon the markets and also remain positioned for “the turn.” Market uncertainty is generally ripe with opportunities for long term investors. Patience will be rewarded, as will discipline. **There is a tremendous amount of cash “sitting on the sidelines.”** Eventually, these funds will be re-allocated to other asset classes. Cash will re-enter the capital markets once confidence is restored.
6. **Commodities** sectors: the collapse in various commodities sectors, as well as the prices for actual commodities, presents long term opportunity. Price collapses below the marginal cost of production discourage development, which threatens the long term supply balance especially for crude oil. We feel commodities will be one of the first sectors to respond positively to a rebound in global economic activity.

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LONG TERM INVESTMENT THEMES

Financials: selective inclusion of certain franchises with solid balance sheets and sustainable business models. We feel it is important to maintain limited exposure to this sector, but we do not advocate complete avoidance. Mohammed El-Erian of PIMCO believes that bank business models, in a world with substantially less leverage, will resemble those of utilities – i.e., negligible growth potential; low valuation; restrictive capital structures; attractive dividend yields. Fundamentally, the sector is unlikely to experience demonstrable improvement absent massive consolidation.

Energy: the collapse in crude prices could discourage exploration and production, as it did in 1998. Long term, this dynamic renders the sector attractive as supply shortages will facilitate prices to rise over time.

Agriculture: We favor investment opportunities along the entire “food chain”: hybrid seeds; fertilizer; equipment; processing; storage. Driven by commodities prices, this sector is also prone to occasional price spikes that render valuations unjustified.

Water: perhaps the most important environmental and economic issue facing the world. We believe investment in all aspects of water development -- irrigation; sanitation; delivery; purification – are vital.

Alternative Energy: until a particular type of energy source becomes prevalent, we favor a “basket” approach using diversified ETFs. However, we feel that this sector, too, represents an important long term investment allocation.

Global Infrastructure: much hinges on the continued rapid expansion and build out of emerging Asia, particularly China and India. We believe many US companies are well positioned to provide the resources necessary for the Eastern hemisphere to improve its standard of living.

Tax-Free Municipals: given US fiscal pressures, we anticipate higher tax rates in the future. High quality tax-free municipal bonds could provide a stable source of income with attractive nominal, as well as taxable equivalent, yields.

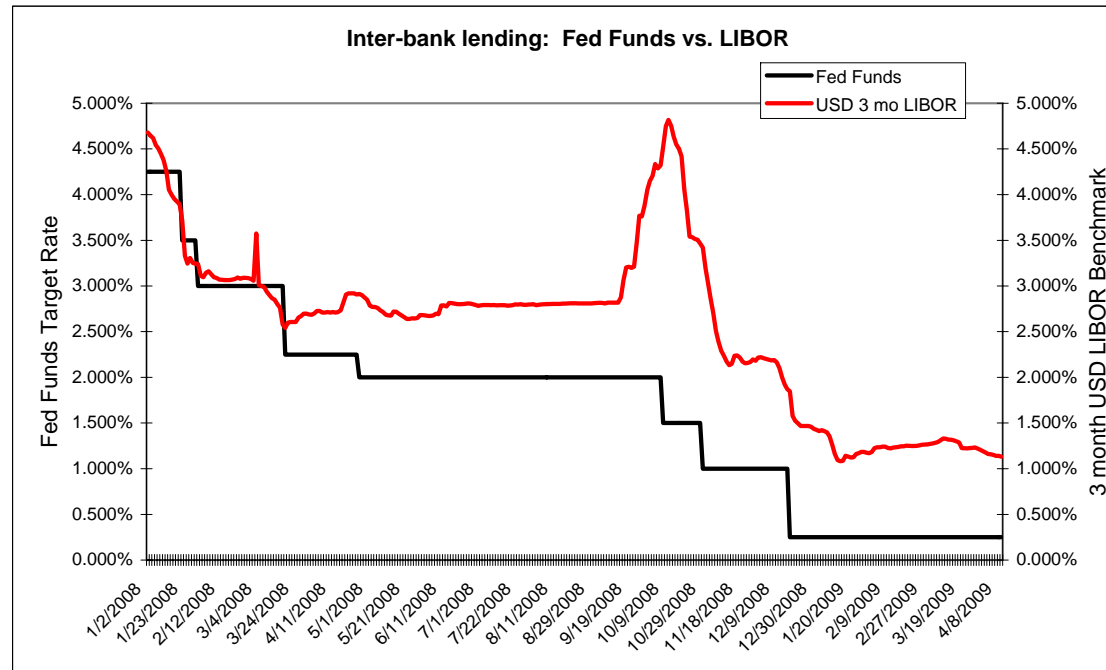
International: no economy will be immune from a global slowdown, but we feel certain countries are better positioned long-term than others. Brazil, in particular, has the potential to become both an agricultural and an energy superpower.

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FED ACTION HAS UNCLOGGED THE SHORT TERM CREDIT MARKETS

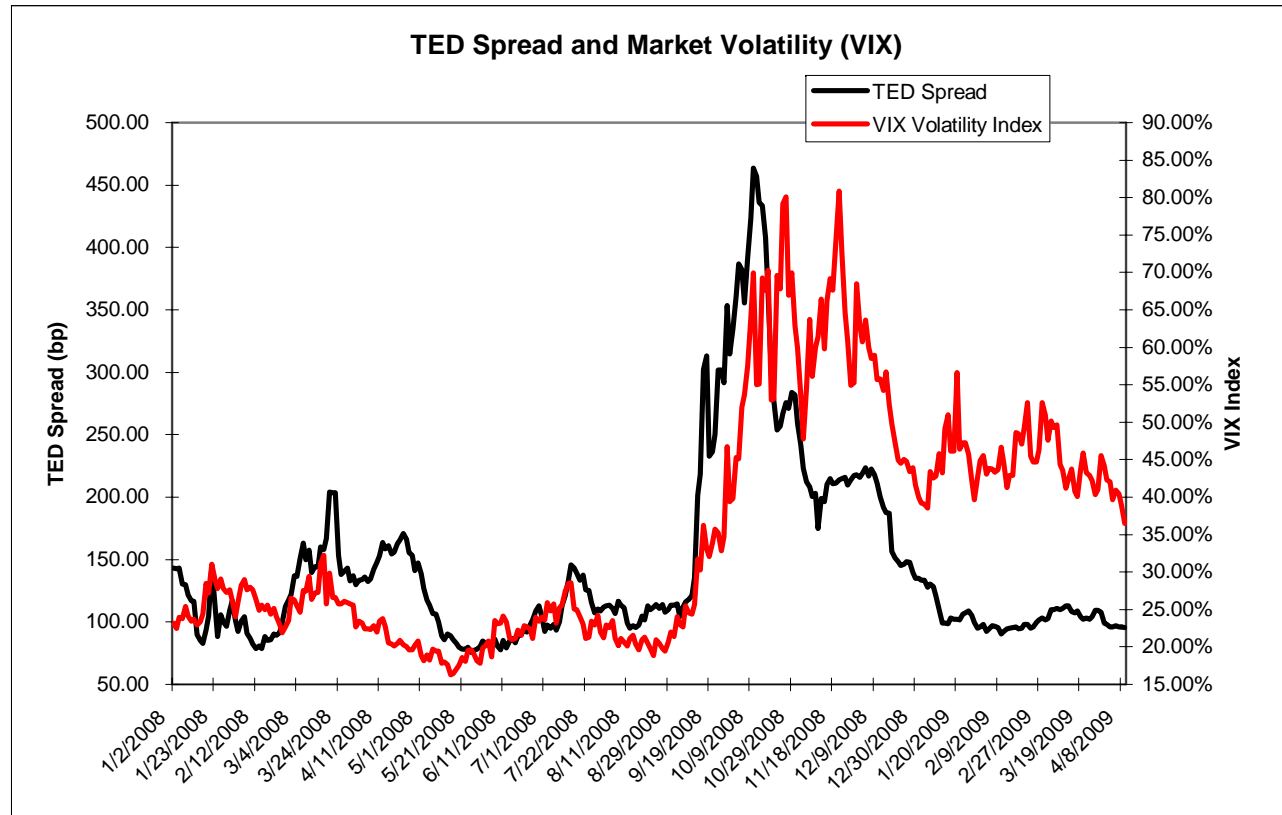


The various emergency programs implemented by the Fed have succeeded in thawing the credit freeze in the interbank lending markets. Now that banks are comfortable again lending to each other, they need to grow comfortable lending to everybody else.

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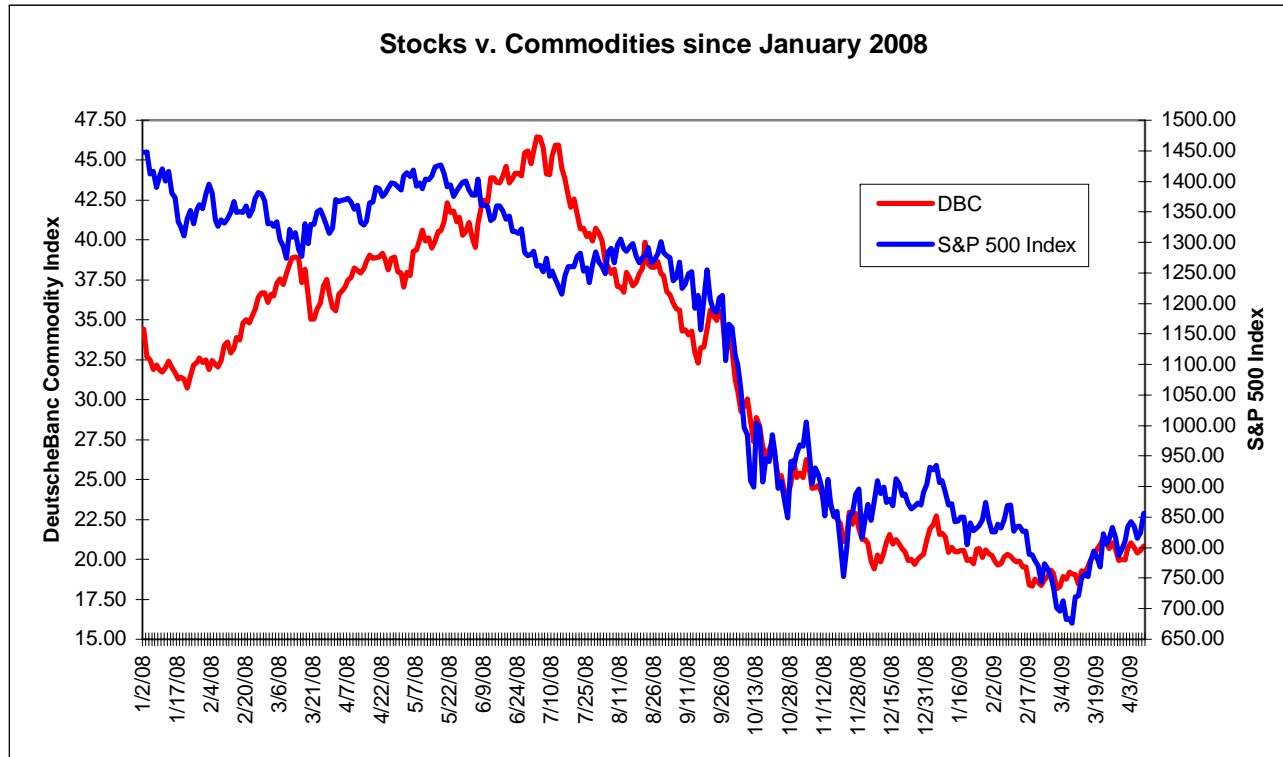
MOST SHORT TERM CREDIT METRICS HAVE IMPROVED – REDUCING VOLATILITY



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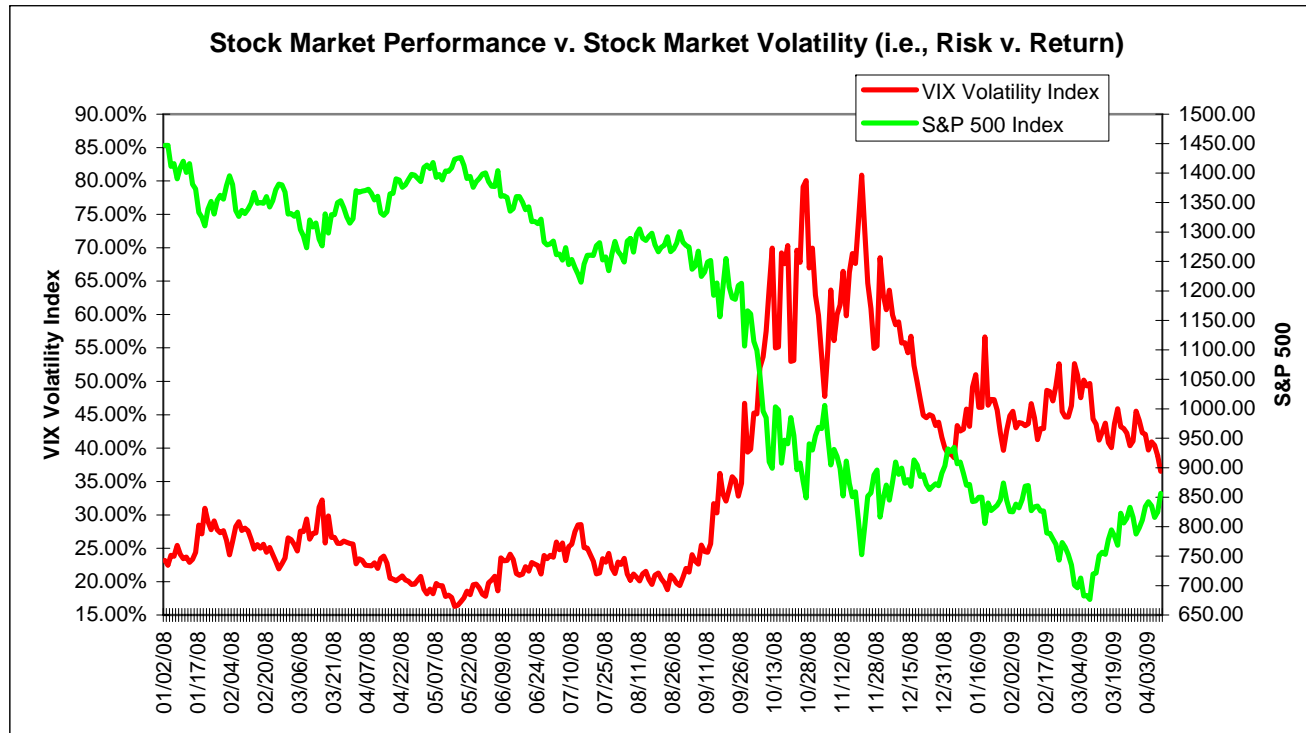
COMMODITIES APPEAR TO HAVE BOTTOMED. HAVE STOCKS?



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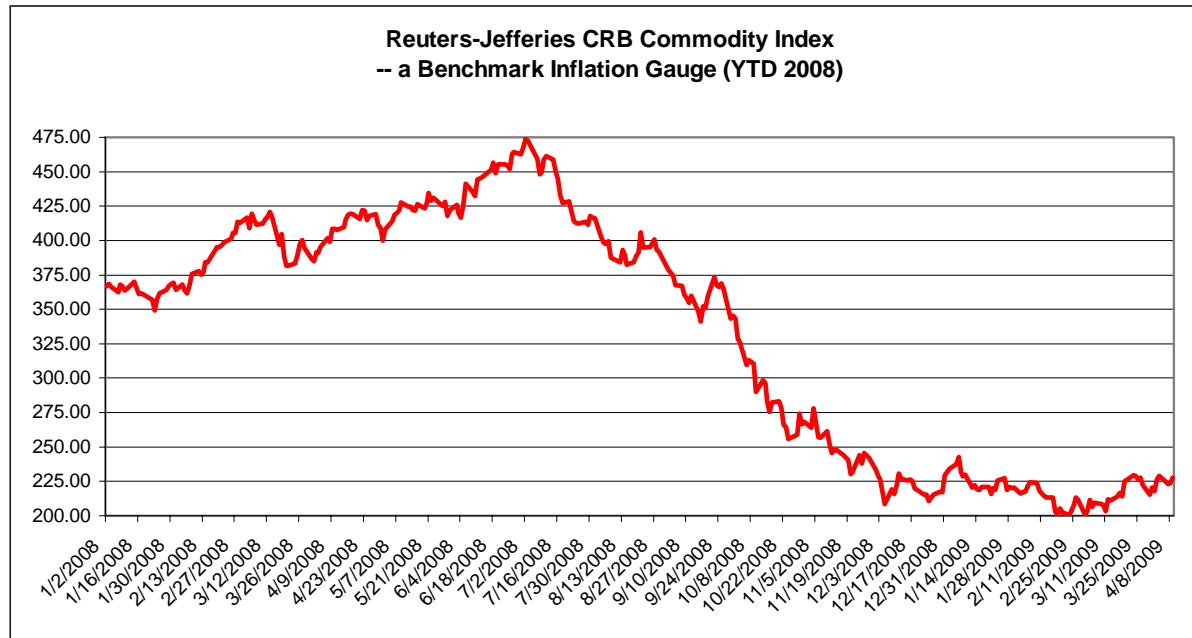
FOR THE STOCK MARKET'S RECOVERY TO PROVE SUSTAINABLE, VOLATILITY NEEDS TO "NORMALIZE"



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WILL THE MARKET SHIFT ITS ATTENTION FROM DEFLATION TO INFLATION?

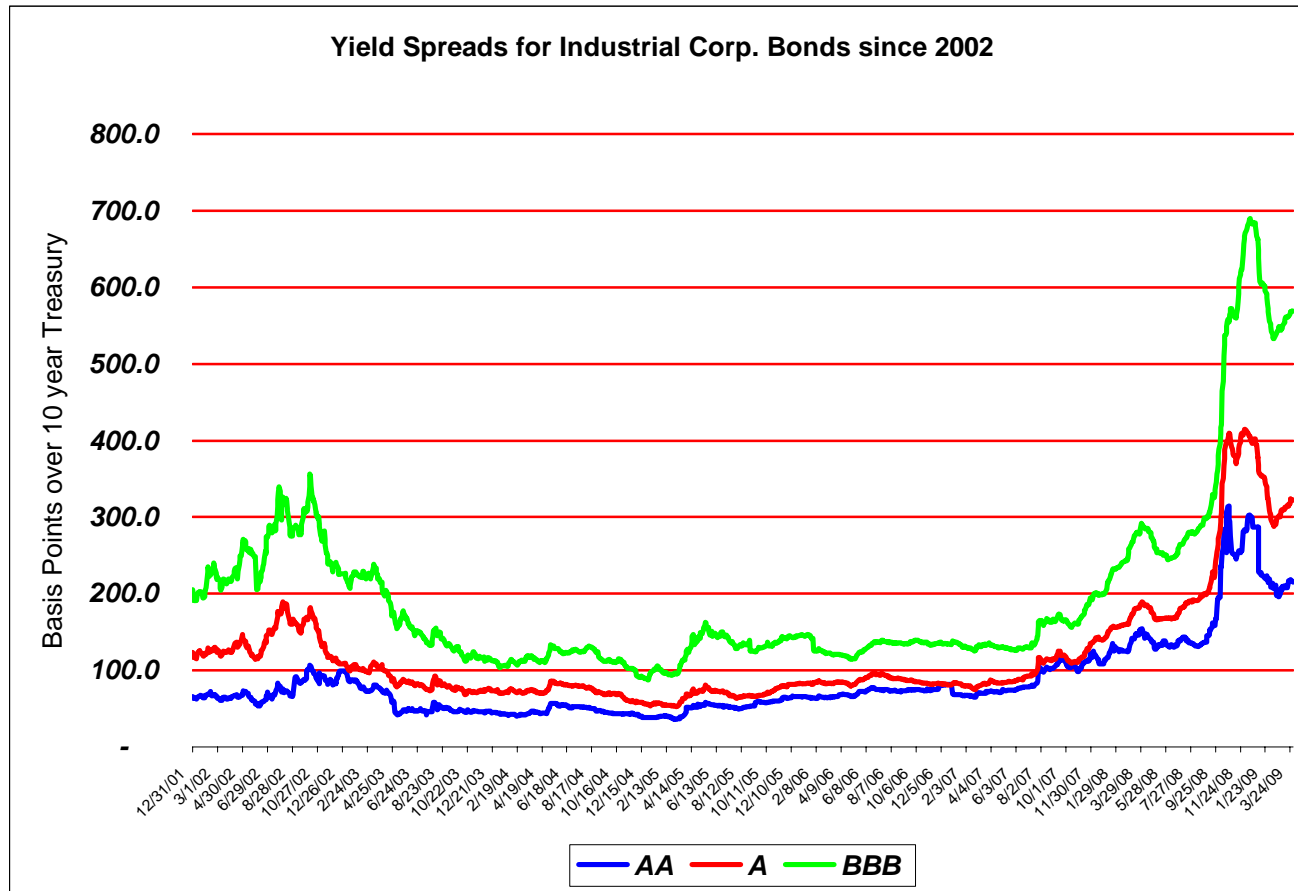


The massive global de-leveraging which has dominated market/economic activity for the past two years culminated in aggressive deflation beginning July 2008. Have the actions of the central banks restored some price stability? In other words, have they defeated deflation, and in that regard, will the markets grow increasingly worried about inflation in the future?

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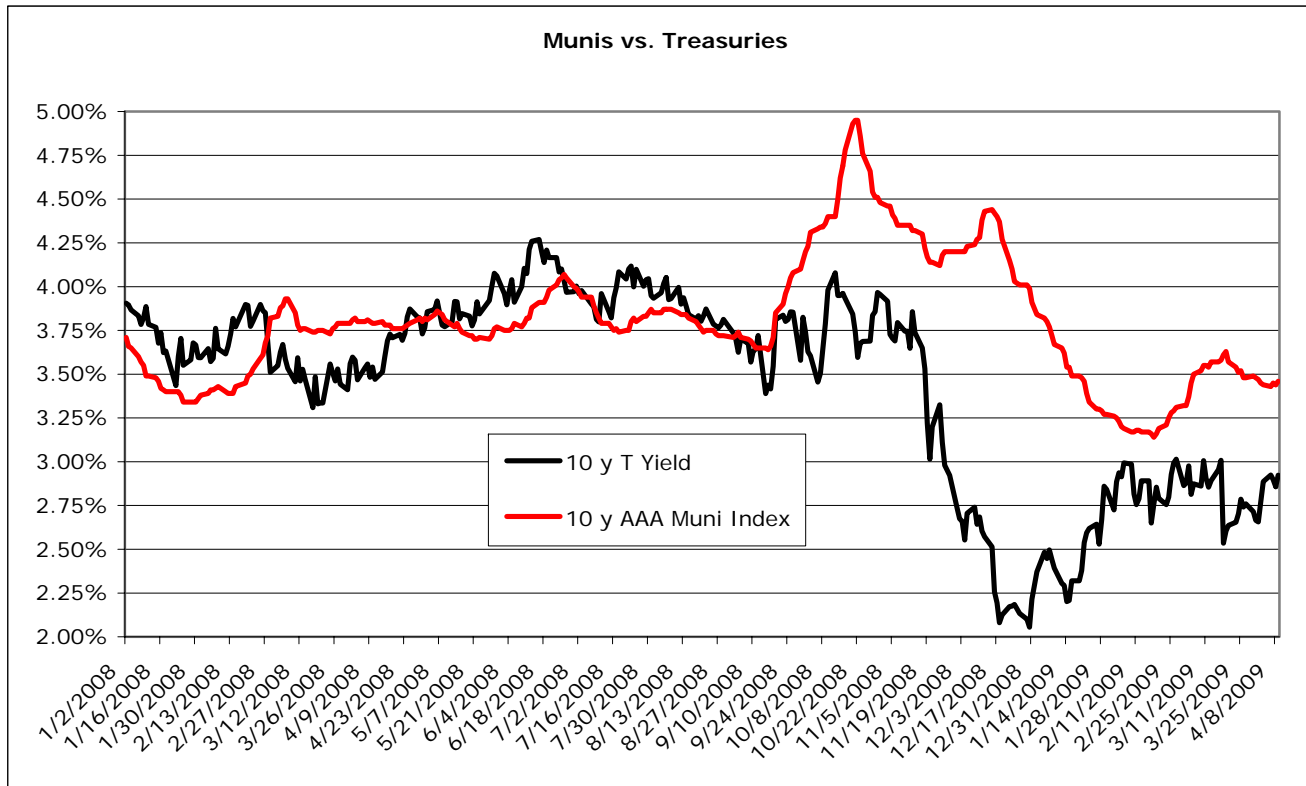
OPPORTUNITIES REMAIN IN HIGH GRADE CORPORATE BONDS



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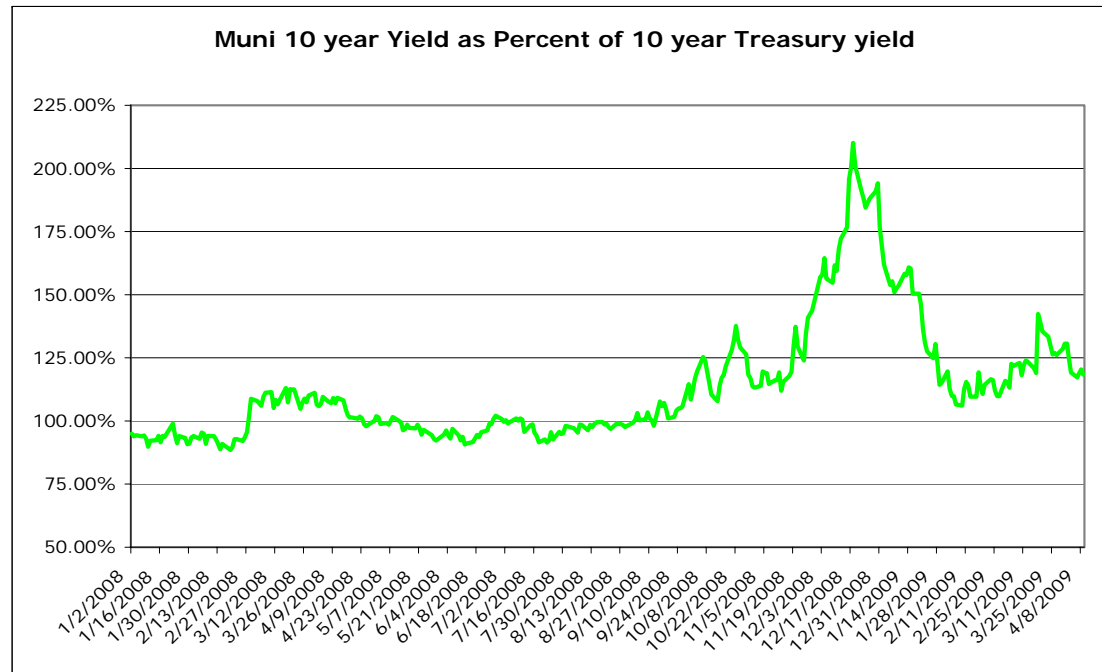
OPPORTUNITIES ALSO EXIST IN TAX-FREE MUNICIPALS



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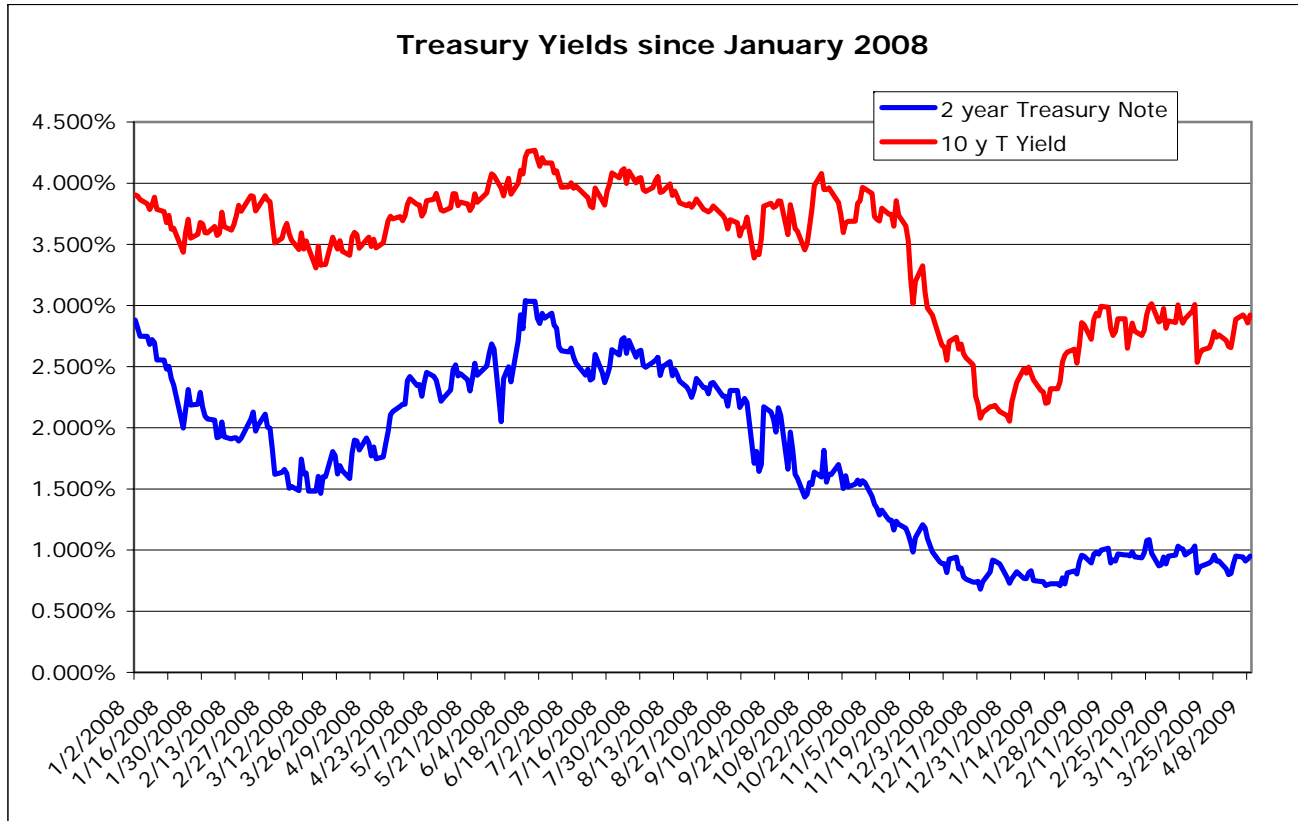


Tax-free municipals have historically offered yields 80 – 85% of comparable taxable bonds. When higher nominal yields are available in tax-exempt instruments, investors have the opportunity to capitalize on such dislocations as they likely will prove temporary. We believe tax-exempt yields will “normalize”, eventually, to their traditional relationship to taxable bonds.

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WHILE SHORT RATES REMAIN NEAR ZERO, YIELDS ON LONGER TREASURIES HAVE RISEN



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