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Dear Valued Investor:

Since his inauguration President Obama has been moving swiftly to address the recession and financial collapse, but in some areas the recovery effort has been stalled by the transition and other issues. Also, a raft of post-September economic and financial market statistics have been coming out that document a serious recession around the globe. All this bad news has slowed the "healing" in credit markets and led to further weakness in equity markets. The S&P 500 is down about 10% so far this year, but still well above the low hit last November. Hardest hit have been Financials, down nearly 30% year-to-date due to economic conditions and the dithering over how to use the Troubled Asset Relief Program (TARP). Industrials and Consumer Discretionary are the second and third worst performers, while Healthcare and Utilities are down less than 2%. Given the economic backdrop, this relative performance picture indicates that investors may be through with the undifferentiated panic selling we saw in the fourth quarter, and are returning to discretionary investing based on policy and economic indicators.

So far the economic news, while grim, is at least not as grim as expected. For example, the consensus expected about a 5.5% decline in real GDP in the fourth quarter, but when that report came out last week it showed a decline of "only" 3.8%. That is still the biggest decline since the first quarter of 1982 when GDP fell 6.4%. There is some good news for us consumers; the price index for total personal consumption expenditures swung from an annualized quarterly rise of 5% in Q3 to a fall of 5.5% in Q4. That is by far the largest quarterly fall in the price level seen since 1947 and the fastest swing from inflation to deflation. The drop in the price level reflects discounting on many products and the sharp declines in energy and commodity prices. The good news is that we got better deals shopping for the holidays. The bad news is that many companies did not make much in profits. The fall in energy prices is in my opinion unalloyed good news. Compared to that horrible $145 per barrel oil price peak we hit last July, we have shaved more than $100 off oil prices, and this decrease will save U.S. consumers nearly $300 billion on energy spending. In part, sky-high oil prices got us into this recession, and I think much lower oil prices will, over time, help get us out.

While all eyes have been on the President's stimulus package, I believe the Federal Reserve (the Fed) has been busily expanding its anti-recession programs and working to prevent protracted deflation (a word the Fed studiously avoids). Various measures of the money supply are accelerating, and the Fed is starting to buy "large quantities" of government agency and mortgage-backed debt. They have announced a similar program to buy consumer and small business debt as well as, for some odd reason, longer-term Treasury debt. In my opinion, all these actions are meant to help stabilize a badly damaged financial system and stop falling prices, including home prices. Given near infinite financial resources, I expect the Fed's efforts will be successful. Of course, there may be a price to pay down the road in the form of a return to higher inflation, but it appears to be the right action given the extraordinary circumstances we are in today.

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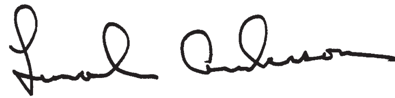
Where do all these developments leave us?

I know I am not happy about much of what is taking place. Bailouts are never pretty. They are never fair, and lots of undeserving folks and institutions get benefits they do not deserve. Like most of you, I didn't spend a million dollars redecorating my office last year, nor did I get a big fat bonus from a company that lost money and ultimately required taxpayer assistance. Neither I nor LPL Financial have required assistance from the TARP.

I do think that we will work our way through this mess and return to growth. I do not know if last November's stock market low marked the bottom, but I think that market valuations look attractive and that the majority of U.S. companies will weather this recession and return to growing earnings. However, for a while longer the picture will remain gloomy and uncertain. On a lighter note, for those believers in the groundhog indicator out there…the groundhog saw his shadow today. Historically, more often than not, that is associated with the markets' heading upwards; of course only time will tell. Certainly, as always, but especially in these troubled times, please call your financial advisor with any questions or concerns.

Best Regards,



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