The January – March 2009 period is a tale of two markets. Prior to March 9, the equities market was dominated by political rhetoric, unclear Obama initiatives, and a Treasury Secretary whose abilities remained hidden. Markets sank to new cyclical lows and everyone turned negative. However, even as the markets continued to fall there were indications that the TARP was beginning to improve liquidity and the 20% growth in the money supply was finally achieving its goals.

Stabilization became evident in early March as the rhetoric turned to more definable actions and confidence in the Administration's policies appeared. Economic data for March began coming in above economists' estimates and, Bank of America, Citi and JP Morgan issued statements on better than anticipated revenues for the first two months of the quarter. While the overall economy continued to contract in March, sectors previously on life support began to breathe on their own. Materials, technology and industrial stocks lead reflecting recent economic data and in anticipation of improvement from the low levels reached earlier in the quarter. Defensive sectors, healthcare and consumer staples, underperformed on a relative basis.

While we are not market timers and cannot predict the direction of the market, the overwhelming pessimism, high institutional cash levels and attractive valuations will be the psychological and fundamental drivers once the catalyst is defined. The economy may well be that catalyst.

As mentioned in our last letter we are finding opportunity in technology again. We believe that this will be a leading sector over the next couple of years. In addition we are focusing on the aforementioned industrials, basic materials and select energy and finance stocks. On the fixed income side we find value in corporate and municipal offerings. There are several ETF's which give exposure to these areas with diversification.

The Second Quarter will continue to be difficult as the economy remains in recession and unemployment, a lagging indicator of productive economic activity, rises above current levels and could possibly reach 10% by year end. Markets may become overbought in the near term and correct as First Quarter earnings and bank stress tests are reported. We will be using any corrections as opportunity to add to our buy list in favorite sectors and conversely shifting away from equities we believe will underperform in a recovery.