2010 - A Year of Challenges in Global Markets

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Stocks began 2010 on an up note but we were soon forced to deal with many issues that moved in and out of focus throughout the year.

Some of these issues revolved around the following:

- Is the global economic recovery strong enough to fight through the debt problems in Europe?
- Is US consumer spending enough to support the economy as we continue to battle high unemployment?
- Will the US economy fall back into recession (the so-called double dip)?
- Will the Euro, the common currency of the European Union, survive this crisis?
- Will Congress vote to extend the Bush tax cuts before year-end?
- What is QE2 and will it cause inflation to rise?

Some thoughts on these issues:

- The global economy is still growing at about 3%. Demand from emerging markets is a big part of this growth. We believe that we are living through a secular change in which these emerging markets will experience higher rates of growth than the developed markets for the foreseeable future.
- We live in an increasingly interconnected world. We are hopeful that the issues with debt in Europe will be resolved in such as way that the European Union and the Euro still stand. We believe that this will be the case given how important achieving this structure was for Europe.
- We recommend that equity portfolios have exposure to all markets. This is particularly important given that much of global growth in the future will be coming from the emerging markets, particularly China, India and Brazil.
- The US economy is growing at about 2.5% and expected to grow by 3.0% next year. The consumer is holding up and businesses have started to spend on equipment purchases which had been deferred during the recession.
- QE2 means the second round of quantitative easing. Under this program, the Federal Reserve seeks to support the economy by purchasing US Treasury securities which adds to the liquidity in the financial system and helps keep interest rates low.
- The Federal Reserve felt the economy needed the boost that it would get from lower interest rates and we believe QE2 will prove beneficial in making this happen.
- We continue to be hopeful that the Bush tax cuts will be extended by year-end for at least one to two years.

As we review the year, we continue our focus on investing in a well-diversified portfolio with broad-based asset allocation and sticking with it through the ups and downs. We would counsel investors to try at all times to keep some perspective and not to be swayed too much by the headlines. While we recognize that there are many "issues" which can impact the markets in the short term, the financial markets overall are on much sounder footing than they were just two years ago. Investors that develop a solid investment plan and stick with it will reap the benefits over the long term.