

To: Fischer Investment Group Clients
From: Michael Savage, Chief Investment Officer
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Subject: Monthly Market Update

As the economic recovery enters a new stage, the removal of the massive global stimulus efforts could prove key to market prospects in 2010. We believe the good fortunes for the latter three quarters of 2009 will be difficult to replicate in 2010, but we remain relatively optimistic for at least the first half of 2010. Stimulus measures in the United States are likely to continue to be scaled back. The timing of those moves and how the economy reacts will be drivers of market performance.

Similarly, global monetary policies are likely to be reined in, potentially creating some heightened volatility. Pullbacks should be used by investors needing to add to their international allocations.

The market drifted modestly higher in muted action to end 2009. Most investors seemed content to sit with 20%-plus gains in the S&P 500® index for the year, a stellar rebound after a disturbing plunge in the first quarter. We believe that this lull will likely come to an end as the new year ramps up.

The market, as a forward-looking mechanism, has many issues to consider in determining whether the upward momentum is going to continue. The fourth quarter of 2009 produced a much healthier gross domestic product (GDP) report, doubling the third-quarter 2009 report.

At the same time, employment conditions are improving and look more like historically strong recoveries versus the last two cycles' "jobless" recoveries. We're keeping our eye on the leading economic indicators for a possible peak in the first half of 2010, but we remain relatively optimistic on the market. Pullbacks remain a distinct possibility, and a near-term correction of 6%-10% seems increasingly likely.

Removal of stimulus by both the Federal Reserve and the US government are likely key to the market's prospects. The Fed has already started the process by ending its purchases of Treasury securities, which coincided with a rise in the 10-year Treasury yield of over 50 basis points in December.

- **Employers cut 85,000 jobs in December:** U.S. employers cut payrolls by 85,000 in December. The unemployment rate, calculated using a survey of households as opposed to companies, remained at 10%. Economists surveyed by Dow Jones Newswires had expected a payroll decrease of just 10,000, and for the jobless rate to edge up to 10.1%. November payrolls were revised to a gain of 4,000 from a loss of 11,000.
- **The interest rate story:** Still unknown is when the Fed will begin to hike the fed funds target rate, presently in a range of 0%-0.25%. Although the consensus is that rates will remain unchanged for much of 2010, we differ in that we see economic momentum likely to warrant an earlier removal of some of the Fed's emergency stimulus. It's difficult to argue that we remain in a financial emergency, and a modest series of rate hikes would still leave rates historically low. Rate hikes could also indicate to the market that the Fed has confidence in the recovery, potentially boosting stocks.
- **U.S. Bank Tax Would Force 50 Banks to Pay \$90 Billion Over 10 Years:** A new tax proposed by the White House, called a "financial crisis responsibility fee", would force about 50 banks, insurance companies and large broker-dealers to collectively pay the federal government roughly \$90 billion over 10 years, White House officials said. Of the 50, about 35 would be U.S. companies and 10 to 15 would be U.S. subsidiaries of foreign financial firms.
- **U.S. Retail Sales Fell in December; Jobless Claims Rose:** U.S. retail sales fell an unexpected 0.3% in December, signaling restraint by consumers during the holidays as the economy wrestles with high unemployment. Economists surveyed by Dow Jones Newswires forecast a 0.5% increase. November sales, however, were adjusted upward to a 1.8% increase from a 1.3% gain. In a separate report, the number of U.S. workers filing new claims for jobless benefits unexpectedly increased last week by

11,000. But a drop in the four-week moving average to its lowest level since August 2008 showed claims are still trending downward. Total claims lasting more than one week, meanwhile, decreased.

- **Democrats Lose Edge, New WSJ/NBC News Poll Shows:** As Barack Obama enters his second year in office amid an enduring economic downturn, voters are less optimistic about his ability to succeed and no longer favor keeping the Democrats in control of Congress, according to the new Wall Street Journal/NBC News poll. The trends point to an increasingly difficult political climate for President Obama as he hopes to push his domestic agenda beyond health care and to preserve his party's majorities in the House and Senate. The survey results show that Mr. Obama's personal popularity remains high across a large swath of the electorate, but they also chronicle a decline in the high support for his agenda that Democrats enjoyed when he was sworn into office over a year ago. To throw salt in the wounds of the Democrats, Republican Scott Brown won the Massachusetts Senate seat previously held for many years by Ted Kennedy.
- **Supreme Court Overturns Limits on Corporate Spending in Political Campaigns:** The Supreme Court has ruled that corporations may spend freely to support or oppose candidates for president and Congress, easing decades-old limits on their participation in federal campaigns. By a 5-4 vote, the court overturned a 20-year-old ruling that said corporations can be prohibited from using money from their general treasuries to pay for campaign ads. The decision, which almost certainly will also allow labor unions to participate more freely in campaigns, threatens similar limits imposed by 24 states. The justices also struck down part of the landmark McCain-Feingold campaign finance bill that barred union- and corporate-paid issue ads in the closing days of election campaigns.
- **The President's proposal throws global banking industry into turmoil:** U.S. President Barack Obama proposed a sweeping overhaul of Wall Street that is reverberating around the world. The proposal calls for banks to be prohibited from "owning, investing in or sponsoring" private-equity groups and hedge funds. It would also ban them from running their own trading desks. The move has been pushed by former Federal Reserve Chairman Paul Volcker for months. The reform could force the restructuring of Goldman Sachs, JPMorgan Chase and other major financial institutions. Next week, U.S. officials are set to meet leaders in London about how Obama's proposal could be implemented in the U.K. Critics of Obama's plan said it shows a lack of global coordination on financial regulation.
- **U.S. Existing-Home Sales Tumble:** Existing-home sales sank 16.7% in December to a 5.45 million annual rate, according to the National Association of Realtors. The drop, which came after three straight increases that were fed by a government tax credit, was steeper than Wall Street expected. The data also said inventories shrank, and that prices rose year over year for the first time in more than two years.
- **Sales of New Homes Unexpectedly Fell 7.6% in December:** Demand for new homes unexpectedly fell in December, with sales dropping 7.6% from the previous month to a seasonally adjusted annual rate of 342,000, the Commerce Department said. Prices and inventories fell. Economists surveyed by Dow Jones Newswires had estimated sales would climb 2.8%. Aside from unemployment, new-home sales are suffering because of strong demand for used homes and the looming expiration of a big tax credit.
- **Senates approves Bernanke for second term as Fed chairman:** The U.S. Senate backed Ben Bernanke for a second term as chairman of the Federal Reserve, but he continues to face significant challenges. Bernanke's political standing has taken a beating during the past several weeks, which might make it more difficult for him to defend the central bank and maintain its independence. Fed officials "are going to be fighting a rear-guard action against congressional encroachment and interference," said Martin Barnes, managing editor of BCA Research.
- **Ford Posts Its First Annual Profit Since 2005:** Ford reported its first annual profit since 2005, helping the auto maker further distance itself from its troubled U.S. rivals while stoking consumer buzz

about the company and its vehicles. Net income for the fourth-quarter was \$868 million, or 25 cents a share, compared with a loss of \$5.98 billion, or \$2.51 a share. The auto maker's fourth-quarter revenue was \$35.4 billion. Ford's full-year 2009 profit was \$2.7 billion, compared with a loss of \$14.7 billion the previous year. Recent troubles at Toyota and Honda should also help Ford keep the momentum going.

- **U.S. Economy Expanded at 5.7% Rate in Fourth Quarter**: The U.S. economy surged at the end of 2009, driven more by slower inventory liquidation than by consumer spending. Gross domestic product rose at a seasonally adjusted 5.7% annual rate from October through December, the Commerce Department said Friday in its first estimate of fourth-quarter GDP. GDP has gone up two straight quarters, rising 2.2% in the third quarter after a year of contraction. In all of 2009, GDP fell 2.4%, the biggest drop for an entire year since 10.9% in 1946.
- **Obama, White House unveil \$3.8 trillion budget**: President Barack Obama proposed a \$3.8 trillion budget for fiscal 2011 that will add fuel to the debate over the size and scope of government with proposals for big increases in personal and business taxes, modest spending cuts and increased outlays for education, defense and jobs initiatives. The Obama administration has focused in recent days on proposals to cap so-called discretionary spending, roughly 17% of the total budget, as part of a plan to start narrowing the record \$1.6 trillion gap between proposed budget outlays and tax receipts. But the budget plan calls for nearly \$1 trillion in tax increases on upper-income families -- largely by allowing Bush-era tax cuts to expire. Banks, bankers and multinational corporations would face new fees and levies. And oil companies would lose \$39 billion in tax breaks. Overall, Mr. Obama's budget plan would shrink the current deficit to \$727 billion, or 4.2% of the gross domestic product, by 2013. But if annual deficits shrink, the total federal debt will keep growing. In all, the president's budget would add \$8.5 trillion to the federal debt through 2020, pushing the debt as a percentage of GDP to 77%, up from 53%.