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

Heading into 2010 we are taking a more cautious approach to our investment selections. While we remain optimistic on the market and see signs of improving economic conditions, there are still risks that remain. Some of the economic and financial risks to consider include:

- With such strong upward market moves in 2009, we feel growth will be more muted in 2010
- A big question is whether growth will continue when external fiscal and monetary stimulus is scaled back
- The value of the US dollar still remains in focus
- Manufacturing surveys have stalled as of late
- Some recent housing date has been disappointing
- November retail sales figures were softer than expected
- The growing deficit, which now exceeds $12 trillion
- Uncertainty about health care reform and regulation

The strong rally in the equity markets during 2009 allowed investors to recover some of their losses in 2008. If you were invested in the markets in 2009 you certainly participated in the rally. Our concern is that the strong corporate earnings that drove the rally were a result of window dressing through drastic cost cutting measures. The charge for corporations/stocks in 2010 is to show strong top-line (revenue) growth to fuel strong margins and EPS (earnings per share) instead of the drastic costing cutting measures instituted in 2009.

We remain relatively optimistic on the prospects for the equity markets as economic conditions continue to improve, seasonality tends to be favorable at year-end, and investor sentiment has not reached levels that indicate undue enthusiasm toward the market. Nonetheless, we believe that gains will be much more subdued in 2010 and trading will be more volatile than it has been since March. We've already started to see this trend develop in December with the market moving more sideways than upward.

As the year progresses, economic and earnings comparisons will become more difficult to project and the forward-looking market will likely become increasingly more demanding of strong revenue growth.

- **According to the UN, world still faces threat of double-dip recession**: The world's economy faces the threat of a double-dip recession if governments shut down their stimulus programs too soon, the United Nations said in its annual report on economic prospects. The recovery is "far from robust," according to the report. The U.N. projected a 2.4% expansion for the global economy in 2010 if stimulus spending continues. Growth of 2.1% was forecast for the U.S. economy, significantly higher than the 1.5% increase projected by the International Monetary Fund.

- **Bank of America to repay $4 billion in TARP aid**: Ken Lewis, Bank of America's outgoing CEO, said repayment of taxpayer funds the bank received during the financial crisis is an indication of the company's strength. "It is a milestone indicating that public policy has succeeded in helping our industry and the economy begin to recover," Lewis said. "As banks replace Treasury investments with private capital, confidence in the financial system increases, taxpayers are made whole and government's unprecedented involvement in the private sector lessens," a U.S. Treasury representative said.

- **Rates on 30-year mortgages set new lows (12/3/2009):** The average interest rate for a 30-year mortgage dropped to a record low of 4.71% this week, pushed down by an aggressive government campaign to reduce borrowing costs. The rate, published Thursday by Freddie Mac, is the lowest since the mortgage finance company began tracking the data in 1971. The previous record of 4.78% was set during the week ending April 30 and matched last week. The Federal Reserve is pumping $1.25 trillion into mortgage-backed securities to try to bring down mortgage rates, but that money is set to run out next spring. The goal of the program is to make home buying more affordable and prop up the housing market.

- **Unemployment rate falls to 10.0% in November**: U.S. job losses slowed sharply in November and the unemployment rate unexpectedly declined, in a sign the labor market is finally starting to heal as the economy recovers. Nonfarm payrolls fell by just 11,000 last month, slowing down from a downwardly revised 111,000 drop seen in October, as the recovery encouraged companies to retain workers, the Labor Department said Friday. The unemployment rate, calculated using a survey of households as opposed to companies, edged lower to 10% in November from 10.2%. Economists had forecast the jobless rate would remain at October's level of 10.2%, when it rose to the highest level since April 1983.

- **Will Fed decide to move rates sooner than expected**: Friday, December 4th's jobs report nudged the Federal Reserve a little closer to the moment when it will raise interest rates. A decision to raise interest rates is still likely to be at least several months away. But Fed officials are considering other steps they could take as they inch in that direction and they will likely debate them as early as their Dec. 15-16 meeting. The jobs report was greeted at the Fed as some of the strongest evidence yet that the economy is improving, and may continue to improve next year even as the effects of the government stimulus wane. The Fed has cut interest rates to near zero, flooded the financial system with nearly $1 trillion and signaled that it intends to keep interest rates low for an "extended period." Investors took Friday's jobs report as a sure sign that the Fed has gotten closer to raising its target for the federal-funds rates, at which banks lend to each other overnight, from its current level of between zero and 0.25%. We feel the Fed is likely to raise the target rate to .50% by the second quarter of 2010 and to 1.00% by the end of 2010.

- **Goldman to pay executive bonuses in stock only:** Goldman Sachs Group Inc., the most profitable securities firm in Wall Street history, said the firm's top 30 executives will receive their entire year-end bonus in stock that will be locked up for five years. The award will be comprised of so-called shares-at-risk, allowing the firm to take them back if it determines that the executive failed to adequately analyze or raise concern about risks, the New York-based company said in a statement today. The firm also will give shareholders a non-binding vote on compensation. The policy will apply to the 30 members of Goldman Sachs's management committee, including Chairman and Chief Executive Officer Lloyd Blankfein, Chief Financial Officer David Viniar and the leaders of the firm's global and regional divisions. Goldman Sachs has been criticized for setting aside $16.7 billion to pay employees in the first nine months of the year after benefiting from government support last year. "We believe our compensation policies are the strongest in our industry and ensure that compensation accurately reflects the firm's performance and incentivizes behavior that is in the public's and our shareholders' best interests," Blankfein said in the statement. (Source: Bloomberg.com)

- **Fed holds rates to fuel recovery**: The Federal Reserve pledged Wednesday, December 16, to hold interest rates at a record low to drive down double-digit unemployment and sustain the economic recovery. The Fed noted that the economy is growing, however slowly. And turning more upbeat, it pointed to a slowing pace of layoffs. Still, Fed Chairman Ben Bernanke and his colleagues gave no signal that they're considering raising rates anytime soon. They noted that consumer spending remains sluggish, the job market weak, wage growth slight and credit tight. They also noted that companies are still wary of hiring. Noting the stabilized financial markets, the Fed said it expects to wind down several emergency lending programs when they are set to expire next year. That seemed to strike a confident note that the Fed thinks it can gradually lift supports it provided at the height of the financial crisis.

- **Bernanke named Time Magazine "Person of the Year"**: On December 17 the Senate Banking Committee voted 16-7 in favor of confirming Federal Reserve Chairman Ben Bernanke for a second term. Six Republicans and one Democrat opposed confirmation. The full senate is expected to vote on Bernanke's confirmation in early 2010.

- **Moynihan named Bank of America CEO**: Brian Moynihan, the 50-year-old executive in charge of Bank of America's sprawling consumer and small-business units, was named chief executive, succeeding Kenneth Lewis, people familiar with the situation said. Directors at the Charlotte, N.C., company voted unanimously Wednesday night to promote Mr. Moynihan to CEO of the nation's largest bank in assets.

- **House passes $154 billion measure to spur job creation**: A $154 billion aid package was approved by the U.S. House in a 217-212 vote that reflected solid Republican opposition and deficit concerns by conservative Democrats. The measure includes an extension of unemployment benefits and financial assistance for state governments. The bill is unlikely to reach President Barack Obama's desk before Christmas because it faces opposition in the Senate.

- **Sales of existing US homes rose 7.4% in November**: Sales of previously owned homes in the U.S. rose 7.4% in November to a 6.54 million annual rate, according to the National Association of Realtors. Inventories of previously owned homes decreased by 1.3% to 3.52 million available for sale, representing a 6.5-month supply at the current sales pace.

What to expect in 2010

- **Unemployment**: This measure still remains the ultimate indicator as to how well the recovery is doing. While the huge $787 billion federal stimulus package was supposed to create and save millions of jobs, there is no measurable evidence that this occurred. It is safe to assume that the equity markets will not be able to sustain an upward trend until new jobs are created and the unemployment rate reverses its trend. We remain cautious about companies and sectors that rely heavily on consumer spending until we see evidence that unemployment starts to improve.

  Some signs of optimism?:
  - Initial unemployment claims have decreased sharply as of late (the best leading indicator of employment)
  - Hiring of temporary help is surging
  - Productivity is surging

- **Housing and the home tax credit**: The $8,000 new buyer credit has been extended through April 2010, and an additional credit is being offered to those homeowners that have lived in their home for at least 5 years and are looking to relocate their primary residence. This initiative should help boost the real estate market, retailers who benefit from the home improvement industry (Home Depot and Lowes) and home appliance retailers. Since housing was the major contributor to the recent demise of the global economy, it stands to reason that it will also help lead us out of this mess. One key consideration: While the US government extended its support for the housing market until the middle of 2010, this measure makes it more difficult to gauge the current state of the recovery. Additional measures to spur job creation will also cloud the recovery picture. Housing and unemployment are the two major indicators we will be watching closely going into 2010.

- **Strength of the financial institutions**: The health of financial institutions will continue to be a major story in 2010. It appears that the majority of the TARP money that was lent to various institutions will be paid back by the end of 2010. It remains to be seen what the return on investment will be for the American taxpayers since it appears our politicians have already devised other ways to spend the proceeds. Assuming GDP remains strong in 2010, financial institutions will continue to have strong earnings and increased profitability. The biggest concern is how the government and the financial institutions plan to support small businesses. It is imperative that lending to this sector of the US economy improve in order to spur any meaningful job growth.

- **The US dollar**: Most signs point to the US dollar remaining weak in 2010. However, if we see any significant signs of inflation we can expect the dollar to start recovering as short-term interest rates will move higher. One beneficiary of the weak US dollar is US exports.

- **Still a large percentage of cash on the sidelines**: Investors are still holding a larger than normal percentage of cash. This is directly related to investors still licking their wounds after a rough 2008. We feel 2010 will provide some great opportunities in the equity markets and once investors have faith that the recovery is sustainable; the massive amounts of cash on the sidelines could fuel a serious equity market rally.

- **Corporate earnings**: Publically traded companies have weathered the storm fairly well, but they now must start to show decent revenue growth instead of relying solely on EPS growth (earnings per share). The phase of extreme cost cutting and window dressing to boost earnings and margins is now over. Investors need to see that companies are starting to sell more products and services, both domestically and internationally. This will help spur job growth, which the equity markets need in order justify higher stock prices.

- **Interest rates**: Rates remain at extremely low levels and it appears the Fed has no intentions of raising them any time soon. Our view is that these low rates were put in place because of a financial 'emergency'. Since we are no longer facing the same financial conditions of 2007-2008, there is no justification for such extraordinary measures to continue indefinitely. A .50 to .75% hike in rates in the first quarter of 2010 would still leave the Fed Funds rate at or below 1.00%, which should still be able to stimulate the economy effectively. Once the Fed starts to raise rates, longer maturity bonds could take a hit.

- **Unwinding of massive stimulus measures**: We are watching closely as the Federal Reserve and US government begin to end some of its more extreme stimulus measures. Two in particular are Treasury purchases and the scheduled end of mortgage-backed securities (MBS) purchases in 2010. Our focus will be on mortgage rates as these developments occur. Any measurable rise could be detrimental to the housing recovery.