
Market Update

March 2009 Review

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In like a bear, out like a...

As the saying goes, the weather in March, particularly in New England, comes "in like a lion and out like a lamb." Just like the unseasonably warm weather we experienced during this past month, capital markets also experienced a thaw of their own. As the Federal Reserve, Treasury and governments around the world stepped up efforts to address the financial crisis, fears of systemic collapse abated and investors showed glimmers of willingness to take on more risk. Major economic data showed their first signs of life, as orders of durable goods rose 3.4% for the month of February; prompting speculation that the worst of the recession is over. Reports showing improvement in retail sales, residential construction, and home resales may indicate that the economy may be stabilizing after shrinking last quarter at the fastest pace in 25 years. Investors also responded enthusiastically to the White House's plan to remove toxic assets from banks' balance sheets. The two-part program aims to boost purchases of bad loans and real estate-related securities and will use up to \$100 billion of bank rescue funds from the Treasury as well as financial guarantees from the Federal Reserve Board and the Federal Deposit Insurance Corporation ("FDIC").

In other economic news, the Fed announced a further expansion of its balance sheet by over a trillion dollars in efforts to drive down the cost of long-term borrowing. Effects were immediately felt as mortgage rates declined nationally by almost a quarter-point, with national averages finishing the month near all-time lows. Furthermore, an uptick in consumer demand showed new home sales improving by 4.7%, existing home sales up 5.1%, and new home starts up 22.2%, all for the month of February. Home prices, on average, may have continued to fall; however, as housing first led the economy into the recession, it may prove to be a catalyst to bring it back out as well.

With improving data and favorable responses to government actions, capital markets halted their losses, at least temporarily, as major indices reversed course in a positive manner for the month. The Dow Jones Industrial Average gained 7.9%, the S&P 500 Index advanced 8.8%, and the NASDAQ Composite rose 11.0% after sinking to new 12 year lows in the early part

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of the month. International markets, as represented by the MSCI EAFE Index, exhibited modest strength, improving 5.9%. Despite March's strong rally, most equity indices posted negative returns for the quarter.

| | March | YTD |
|--------------------------------|-------|--------|
| DJIA | 7.9% | -12.5% |
| S&P 500 | 8.8% | -11.0% |
| NASDAQ | 11.0% | -2.8% |
| MSCI EAFE | 5.9% | -14.6% |
| Barclays Aggregate | 1.4% | 0.1% |
| Barclays U.S. Corp. High Yield | 3.2% | 5.9% |

Government programs continued to help stabilize the debt markets as investors continued to absorb new debt raised by higher-quality, or investment-grade companies. Riskier areas of the credit market continued to move modestly higher as the Barclays Capital U.S. Corporate High Yield Index returned 3.2% for the month, the Barclays Capital Investment Grade CMBS Index rose 5.9%, and the Barclays Bank Loans Index advanced 2.0%. The Treasury Inflation Protection Securities ("TIPS") sector rebounded sharply in March after being oversold, returning 5.8% for the month. As a whole, the traditional barometer of the U.S. fixed income market, the Barclays Capital U.S. Aggregate Index, rose 1.4%.

Despite the strong month, "in like a bear and out like a bull" still seems wildly optimistic. As recently as December 2008, capital markets saw positive results, only to sink to new bear market lows in January and February. With a fresh round of unemployment numbers due on Friday, April 3, the kick-off of 1st quarter earnings season a few weeks away and the lingering threat of bankruptcy for General Motors and Chrysler, investor uncertainty and nervousness will likely drive continued volatility. However, markets are seeing small signs of life. After all, it's now springtime.

Definitions & Disclosures:

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The Barclays Capital Bank Loan Index is a market-weighted index that tracks the performance of institutional leveraged loans. By monitoring spreads and interest payments, the index can be a useful tool in gauging the health of the institutional loan markets.

The Barclays Capital U.S. TIPS Index represents represents inflation-linked bonds offered by the U.S. Treasury.

The Barclays Capital Investment Grade CMBS Index is an index designed to mirror commercial mortgage back securities of investment grade quality (Baa3/BBB-/BBB- or above) using Moody's, S&P, and Fitch respectively, with maturity of at least one year.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.