

Market Update

March 2010 Review

Market Update is a monthly publication circulated by USI Advisors, Inc. and is designed to highlight various market and economic information. It is not intended to interpret laws, regulations or to address specific client situations.

This report has been prepared solely for informational purposes, based upon information generally available to the public from sources believed to be reliable, but no representation or warranty is given with respect to its completeness. This report is not designed to be a comprehensive analysis of any topic discussed herein, and should not be relied upon as the only source of information. Additionally, this report is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation and/or particular needs of any individual client.

Securities offered through USI Securities, Inc., Member FINRA/SIPC. Investment Advice provided by USI Advisors, Inc., 95 Glastonbury Blvd., Glastonbury, CT 06033, (860) 652-3239.

In Like a Lion, Out Like a Bull

The strong performance of the domestic equity market in 2009 continued through the first quarter of 2010 as the S&P 500 index returned 6.0% in March to bring the total return for the quarter to 5.4%. While international markets were widely positive in local currency terms, for the U.S. dollar investor these returns were mostly flat to negative as a result of a stronger U.S. dollar partially caused by the Greek debt crisis. Japan was an exception, as its equity markets gained a healthy 8.2%.

The domestic fixed income market has also carried its 2009 performance into 2010. Despite mixed results for the month of March, first quarter performance was widely positive with the broad based Barclays Capital U.S. Aggregate Index returning 1.8%. Despite fears of inflation and rising rates at the horizon, inflows into taxable bond mutual funds continued to be very strong in the first quarter, following record inflows of \$306 billion in 2009.

The fixed income markets have continued to remain stable even as the Federal Reserve has embarked on their exit strategy of providing "emergency liquidity" to steady the financial system. The mortgage purchase program has ended and the Fed announced their intent to sell their stake in Citigroup stock, which in retrospect was a good investment that will likely provide \$1 billion in gains to U.S. taxpayers. It will take time to bring the Fed's balance sheet from \$2.3 trillion back to a more normal size of approximately \$850 billion.

Throughout the capital markets, lower quality outperformed higher quality in the first quarter with the Barclays Capital U.S. Corporate High Yield Index returning 4.6% versus the Barclays Capital Treasury Index's positive 1.12% and in the stock markets, small caps outperformed large caps. Stocks in the financial, industrial and consumer discretionary sectors were the strongest performers, leading the domestic markets with double digit returns. Investors tended to shun more defensive sectors such as telecom & utilities as these sectors actually lost ground for the quarter.

It appears the investor is continuing to be driven by expectations of a consumer-led recovery. The following examines the link between the consumer, the economy and the markets.

	March	YTD	2009
DJIA	5.3%	4.8%	22.7%
S&P 500	6.0%	5.4%	26.5%
NASDAQ	7.2%	5.9%	45.3%
MSCI EAFE	6.3%	0.9%	32.5%
Barclays Aggregate	-0.1%	1.8%	5.9%
Barclays Corp High Yield	3.1%	4.6%	58.2%

In March, we "celebrated" the anniversary of the S&P 500 index low of 677 points. We have come a long way since then as the index has returned a healthy 72.9% as of March 31, 2010. An added benefit of the rising capital markets is the improvement of the consumers' balance sheets. The personal balance sheet contains assets and liabilities. Assets consist of checking and savings accounts, retirement accounts such as 401(k) and IRAs, and tangible assets including, but not limited to, property and cars. Liabilities on the other hand include items such as mortgages, outstanding credit card debt and monthly expenses such as utility bills. Simply subtract the total liabilities from the total assets to calculate the "wealth" of a consumer (wealth = assets - liabilities). Using this equation, to increase

Market Update

wealth one must increase their assets and/or decrease their liabilities. The remarkable rally from the market low in March 2009 has increased the assets side of the balance sheet for many consumers. This is important because the wealthier we feel the more money we tend to spend, which in turn stimulates economic recovery.

Given that 70% of Gross Domestic Product ("GDP") is consumer-driven, a happier consumer typically makes for a happier economy. Consumer spending has increased for the 5th consecutive month as of February. The improving markets have also increased our optimism about the future as witnessed by the rise in the Conference Board Consumer Confidence Index.

On the not-so-good news front, the bursting of the real estate bubble has taken a heavy toll on the consumer. Since the third quarter of 2006 through the end of 2009, nearly \$7 trillion in housing value was lost. The three year median house price is down 22% and more than 10% of homeowners are delinquent on their mortgage payments. The equity on consumers' homes is one of the largest items on the personal balance sheet and the drop in the housing market has had a negative impact on how wealthy consumers feel.

Not only does the fluctuation of the real estate market impact consumer wealth, it also impacts the efficiency of our economy. There are more than 11.3 million homes worth less than their mortgage, representing approximately 1 in every 4 homeowners with an estimated negative equity of about \$70,000. This negative equity poses a problem for consumers as it directly impacts not only their mobility but also prevents the ability to borrow against their homes to pay for goods and services. If the number of homes underwater continues to get worse, more consumers may join the already 5 million Americans currently going through the foreclosure process.

The unemployment situation also continues to weigh on consumers' minds and play a factor in their confidence. Recent news has lifted some of the dark clouds surrounding the issue but sunny skies are still to come. The unemployment rate in March remained unchanged from February at 9.7%, while the number of jobless claims continued to ebb and non-farm payroll increased in March versus a decline in February.

Historically, unemployment rates tend to be sticky through the first phase of economic upswing for two reasons. One, previously uncouneted discouraged jobseekers are coming back into the labor force when conditions improve. Two, merger & acquisition activity tends to pick up which leads to consolidation and job elimination. Using history as a guide, we should assume a 1% decline in unemployment per year.

The last month has shown a balance of positive and negative economic factors contributing to and detracting from the consumer balance sheet. The strong gains in the securities markets coupled with a recent tick up in payrolls has improved consumers' balance sheets and consumer confidence while the real estate market has detracted from the value of homes. Overall, the consumers' balance sheets have improved since the market lows in March 2009, complementing the first signs of a slow but improving recovery and building the foundation for future economic growth.

Definitions & Disclosures:

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

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 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 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.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The Barclays Capital Treasury Index represents public obligations of the U.S. Treasury with a remaining maturity of one year or more.