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## 2011 Major Stock Market Index Performance

	1 <sup>st</sup> Qtr
S&P 500	5.92%
DJIA (Dow Jones Industrial Avg.)	7.07%
Nasdaq Composite	4.83%
MSCI EAFE (International)	3.37%

Source: Morningstar. These indices are unmanaged and gross of all fees. Your individual performance is not represented by these indices.

## First Quarter 2011 Newsletter

The stock market reached the two year anniversary of the market bottom on 3/9/2009 and is up 104% since that time and is only 8.5% off of the peak set in October of 2007 (S&P 500).

### Market Commentary

The first quarter of 2011 was full of momentous news as governments were overthrown in the middle east, a devastating tsunami hit Japan along with the nuclear crisis, commodity prices including oil rise dramatically, continued sovereign debt troubles in Europe as Portugal has asked for a bailout by the European Union and a newly elected Congress working on a plan for a dramatic reduction in our national debt. **Amidst these uncertain events, the stock market showed surprising resiliency as it bounced back from each blow to end the quarter with the best first quarter performance since 1998 (S&P 500).** Stock market performance is dependent on our fragile economic recovery becoming robust as jobs are created and workers spend more. Higher prices at the pump and in the grocery store will reduce our discretionary spending, but food and gas make up roughly 15% of the average household budget and consumers have learned to be selective shoppers during our recession and have also reduced debt payments and are generally in good shape to withstand higher prices. But if oil prices continue to climb and stay above \$120 per barrel, our economic recovery will be in danger. As conflict in the Middle East begins to abate, oil prices should pull back, alleviating pressure on consumers.

We are confident in our economic recovery as new jobs are coming back albeit at a slow pace and corporate earnings and revenues continue to show strength. While jobs have yet to fully recover, the economy has not only recovered, but has grown to its largest GDP level ever on the back of stronger manufacturing and consumer spending. Congress is looking at tax incentives to encourage corporations to spend their cash hoard on job producing projects and the banks are much healthier and are even restarting dividend payments. Perhaps the biggest catalyst for higher stock prices is the increasing risk appetite of small individual investors. Many ran for the exits during the recession and missed the huge rally off the bottom and are just now beginning to buy stocks. Did you know that an investor who held onto stocks through this recession has made more money than an investor who bailed and went to cash right before the market tumbled when Lehman Brothers went bankrupt in September of 2008? Stocks have made up all those

losses and are climbing closer to the 2007 highs. (A comparison of the Russell 3000 index to the Citigroup 3-month T-Bill Index from 9/30/08 to 12/31/10).

As we enter this second quarter, Congress has agreed on a 2011 budget and is also working on a long term plan to cut our annual national deficits. This crucial issue has important implications for the stock market. Lawmakers are under increasing pressure to formulate a comprehensive and effective plan to reduce debt, which the stock market requires to maintain confidence that the U.S. can make good on its promises. There are sweeping proposals to change Medicare, Medicaid and Social Security, which will be necessary to manage this debt. Stay tuned as tax changes and changes to major social programs will affect your finances.

### Multiple Manager Portfolios

The Multiple Manager Portfolios (MMPs) had great performance for the quarter as commodities and small and mid sized company stocks led the way. Our small position in emerging markets stocks was the biggest loser as developing nations struggle to keep inflation in check while maintaining their strong economic growth rate. Bay City Financial Services made changes during the quarter to position the MMPs to benefit from continued great performance in the stock market. This includes adding more exposure to small and mid sized companies, more to fast growing companies and some significant changes to the bond portion of the MMPs to add diversification as bonds reach the end of their 10 year run of rising prices. One new addition is the Templeton Global Total Return Fund managed by Morningstar's 2010 Fixed-Income Manager of the Year, Michael Hasenstab. We have watched Mr. Hasenstab for a few years and have approved the use of this fund in the MMPs. This fund's flexible and global approach to bonds should boost performance in the MMPs (Moderate, Balanced and Conservative). We expect continued great performance out of the MMPs this year, but headwinds are building as profit margins begin to pull back, valuations look stretched and the Fed begins to reduce the accommodative monetary policy.

### Extra

Bay City Financial Services can be found on the KOMO News Communities page for Bellingham. Find us at <http://bellingham.komonews.com> (no www.)



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