



January 2, 2010

Fourth Quarter 2009

Year in Review

The global stock and commodities markets extended third quarter gains with impressive fourth quarter performances. Although non governmental fixed income markets rebounded sharply from the previous lows throughout the course of the year, it should be pointed out that the recent steepening of the yield curve combined with recent strength in the US dollar caused most fixed income markets to give up some previous gains during the fourth quarter.

Fixed Income Markets

The US government bond was the worst performing asset class during 2009, even more so than the US dollar, which by the way declined by 4%. US Treasuries were particularly weak during December 2009. The 20- year plus treasury Barclay's index lost 21.4% during 2009 and over 6% during the month of December alone. It now yields 4.62% compared to 2.84% last year and 4.48% (two years ago). The ten-year Treasury note yields 3.837% compared to 2.21% (last year) and 3.95% (two years ago) and the three-month Treasury bill yields .061% compared to 1.55% at Dec 31, 2008 and 3.08% at Dec 31, 2007. International bonds made up for a dismal performance in 2008 and returned over 19% for the year. The Barclays Capital Global Aggregate now has a yield of 3.05% compared to 7% on December 31, 2008. The US high yield market also bounced back in 2009 and returned a staggering 59%. The municipal bond market recovered as well during 2009 and returned nearly 13%. The Barclays municipal bond index currently yields 3.62%.

Equity Markets.

Nearly all sectors participated in the 9 month rally off the March 2009 lows. The tech heavy NASDAQ market led the US major indexes with a return of nearly 44%. The US Broad market returned nearly 29% during the year. Information Technology, materials and oddly enough consumer discretionary led the US markets higher. The S&P 500 closed the year at 1,115 for a return of 23.45%. According to Bespoke Investment Group, "The 1,150 area for the S&P 500 is key resistance that should come into play early in 2010. If a break above 1,150 occurs, odds of a run to 1,200+ are high."

Foreign, and more specifically, emerging markets (plus 74%) had the sharpest recovery and performance during 2009. All BRIC countries had strong showings with Brazil coming out on top, (plus 121%) outpacing China (plus 59%), Russia (plus 100%) and India (plus 95%).

After the market carnage in 2008, the solid returns in 2009 were a welcome relief.

Key Rates

There were no changes in the major rates during 2009. The discount and prime rates which were last cut on December 15, 2008, remain at .5% and 3.25% respectively. Most economists are forecasting an increase in the Federal funds rate in the



second half of 2010. Because Chairman Bernanke has been a student of fiscal policy surrounding the great depression, many economists surmise that he may be reluctant to raise rates too early, as was the case in 1931.

Cash has basically become a non-earning asset, with Fidelity Cash Reserves now at an effective yield of .10 % as compared to the December 31, 2008 effective yield of 1.89%.

Gold continued to shine and grabbed the headlines but oil and most commodities bounced back


It began the year at \$879 a troy ounce and eclipsed \$1,200 per ounce before easing to \$1,098 per ounce for nearly a 25% return. However, a number of other commodities had a much better year. Oil which began the year at \$46 per barrel settled at \$79.62 at the close of trading on December 31, 2009. Commodities such as agriculture (Sugar/ OJ) (with the exception of wheat and corn) and precious metals have also had sharp price increases. Among key commodities, copper was up the most in 2009 with a gain of 135.56% (through 12/29) followed by oil +73%, platinum +56%, and silver +55%. Even natural gas, which saw a sharp fourth quarter rally, managed to rally for the year after trading in a major downtrend for the better part of the year. In last year's letter we made a case for an entry into the commodity asset class space based upon the massive deflation that occurred in 2008 and the potential for future demand related to an eventual economic recovery. Commodity and other real return assets may offer a prudent and continued defensive component and may even thwart the possible effects of future inflation on an investment portfolio. Because inflation closely tracks increases in the monetary base that exceed economic growth, there is a real possibility that such a scenario could unfold in 2010 especially if the unemployment rate declines.


2010 Defensive yes Complacent no

While the fundamentals and technical indicators of the US and international economies have improved much over the past year and are still improving, there are still areas of concern such as relatively high unemployment, US Federal and State deficits and the debt of other sovereign nations as well. In addition, unexpected changes in Federal Reserve policy and the effects of probable rate increases could affect the fixed income and equity markets and would most likely cause increased volatility for 2010. Investors need to understand that fixed income investments which have a "safer" connotation than equities could be more negatively affected than equities by the direction and frequency of such changes.

Wishing you much success and happiness in 2010.

Very truly yours,
CRA FINANCIAL SERVICES, LLC


Matthew J. Reynolds


Thomas E. Reynolds