



April 4, 2009

### **First Quarter 2009**

The first quarter 2009 ended with the domestic stock market (as indicated by the S&P 500) off by almost 12% year-to-date. While this extends the current bear market to 18 months, how we finished the quarter does provide investors with long-overdue confidence that the worst may be behind. After reaching a low of 666 on the S&P 500 (6547 on the Dow) on March 9<sup>th</sup>, the market has risen 24.5% thru Friday April 3<sup>rd</sup>. That being said, the DJIA had its worst first quarter in percentage terms since 1939, falling 13.3%. Ultimately, stocks in the broad market did put up their best month (March) since October 2002. In just 25 days the market moved up two and a half times the long-term annual return average of 10%. **This is a clear illustration of why one cannot time the market.**

However, as encouraging as the last several weeks have been, we believe it is still way too early to celebrate a new bull market. We are still in the midst of a severe global recession and we still have a long way to go to get back to the October 2007 market levels. As of this writing, the US unemployment rate has reached 8.5% and many economists say it could easily hit 10%. This recession is as deep as it is due to the three separate but interconnected crises: 1) the pop in the housing bubble (brought on by unsound lending practices, speculation and greed), 2) which caused the freezing up of the financial system (caused by deregulation, misalignment of interests and greed) and finally 3) the collapse in consumer demand.

Though we may not agree with many of the solutions Washington has put forth, few could argue that they have not at least tried to get the economy back on track (whether or not they should is a different argument). We will attempt to summarize what Washington has done and identify the intended rationale of each Plan.

TARP – First major program launched in 2008 and gave the Treasury the authority to purchase up to \$700 billion of troubled assets from financial institutions. This proved a difficult and slow task so the original intentions were modified and it was largely used for recapitalization of banks (\$168 billion), AIG bailout (\$40 billion), Citigroup bailout (\$25 billion), and the GM & Chrysler bailout (\$13.4 billion). It certainly helped unfreeze the financial system, but fell short of its original intentions. It may have staved off a complete calamity.

TALF – Originally Announced in November 2008, the TALF allows the Federal Reserve Bank of New York (FRBNY) to lend up to \$1 trillion (originally \$200 billion) on a non-recourse basis to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. The TALF is designed to increase credit



availability and support economic activity by facilitating renewed issuance of consumer and small business ABS at more normal interest rate spreads.

American Recovery & Reinvestment Act of 2009 – Also deemed the “Obama Stimulus Plan”, this was a \$789 billion dollar fiscal package whose main purpose is to make up for and potentially revive falling consumer demand for goods and services.

Homeowner Affordability & Stability Plan – This is a three pronged \$275 billion dollar program to fix the housing crisis. 1) It provides 7-9 million homeowners the ability to restructure their current mortgage 2) Allows 3-4 million homeowners to modify their loans (the difference between this and #1 is that under this program there may be actual principal write down instead of a modified refinancing only. 3) Keep mortgage rates low by reinforcing FNMA & FHLMC capital and purchasing mortgage backed securities from these institutions.

Some of these programs have been successful, some partially successful and some have yet to be fully implemented. We believe the TALF is a real positive step in the right direction to further unfreeze the credit system. Most economists expect economic recovery to really take hold in 2010. If we can combine the low interest rate and semi-deflationary (mainly commodity driven) environment that we are in with a modest boost in consumer confidence over the rest of 2009, we should see a rise in corporate earnings, which in the long run, is the biggest driver of the stock market. If history is any guide here, the market should begin to recover three to six months before the end of the recession. Therefore, unless we have another large shoe drop (like the complete failure of the domestic auto industry), we could see a more dramatic move up in the market by the end of the year especially since it appears that the “mark to market” rules are being repealed.

In the end, we continue to believe in our investment philosophy, that a balanced portfolio invested for the long-term will produce returns far superior to the risk-free rate of return...just expect volatility along the way. Finally, as always, remember that our interests are continually aligned with yours (unlike wire houses and Wall Street). We understand that you are the reason we exist. We continually try to live up to that commitment and responsibility on a daily basis and do the “right thing” every day, for you the client.

Very truly yours,

CRA FINANCIAL SERVICES, LLC

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