

The Economy

We noted last month that we believe nonfarm payrolls will be the primary focus early on in 2010 and January's release of 20,000 jobs lost shows we are not out of the woods just yet. What was encouraging was manufacturing jobs actually increased by 11,000 (see ISM Manufacturing Index below), the first increase in three years, according to the Labor Department. Nonfarm productivity is running high. The past three quarters were an annualized 6.9% (Q2'09), 7.2% (Q3'09) and 6.2% (Q4'09). The average since the start of the recession in December 2007 is 2.9%.

Consumer Confidence 55.9 (Jan) 52.9 (Dec)	Crude Oil (Mo.-End) \$72.89 (Jan) \$79.36 (Dec)	Personal Spending 0.2% (Dec) 0.5% (Nov)	ISM Manufacturing 58.4 (Jan) 55.9 (Dec)	ISM Non-Manufacturing 50.5 (Jan) 50.1 (Dec)
Gold (Mo.-End) \$1083.00 (Jan) \$1096.20 (Dec)	Natural Gas (Mo.-End) \$5.13 (Jan) \$5.57 (Dec)	Factory Orders 1.0% (Dec) 1.1% (Nov)	New Home Sales 342,000 (Dec) 355,000 (Nov)	Existing Home Sales 5.45M (Dec) 6.54M (Nov)

The Stock Market

Indices (Source: Bloomberg)	Jan.	12-mo.	Twenty-nine out of the 134 subsectors (21.6%) that comprise the S&P 500 posted a gain in January, down from 101 last month. Health Care was the top performing major sector, up 0.49%, as measured by the S&P Health Care Index. In January, the dividend-payers (366) in the S&P 500 (equal weight) posted a total return of -2.48%, vs. -4.75% for the non-payers (134), according to Standard & Poor's. For the 12-month period ended January '10, payers were up 35.82%, vs. a gain of 62.99% for the non-payers. The # of dividend increases in January totaled 15. That lagged the 17 increases registered in January 2009. One company decreased its dividend, down from 10 a year ago. The S&P 500 closed January 29 at 1073.87, 6.6% below its recent high of 1150.23 on January 19. The pullback has some wondering if a correction is underway. A correction is a decline of at least 10%. A bear market is a drop of 20% or more. The S&P 500 has rallied 70% over the 326 calendar days since its March 9 bear market low. Ned Davis Research reported that there have been 93 corrections since 1928, according to USA TODAY. They have occurred, on average, every 322 calendar days. In the previous bull market that ended 10/9/07, the S&P 500 lasted 1,673 calendar days without a correction – the second longest streak in history. The longest was 2,553 calendar days (10/11/90-10/9/97).
S&P 500	-3.6%	33.1%	
DJIA	-3.3%	29.8%	
NASDAQ 100	-6.4%	48.6%	
S&P 400	-3.2%	43.3%	
Russell 2000	-3.7%	37.8%	
MSCI World (ex U.S.) (USD)	-4.7%	41.2%	
MSCI Emerging Markets (USD)	-5.6%	80.2%	
Growth/Value (Source: Bloomberg)	Jan.	12-mo.	
S&P 500 Citigroup Growth	-5.1%	31.2%	
S&P 500 Citigroup Value	-2.0%	35.2%	
S&P Midcap 400/Citigroup Growth	-3.9%	44.2%	
S&P Midcap 400/Citigroup Value	-2.5%	42.5%	
Russell 2000 Growth	-4.5%	39.0%	
Russell 2000 Value	-2.9%	36.5%	

U.S. Dollar (U.S. Trade-Weighted Basket) +1.5% (Jan) -5.9% (2009) \$ was up 7.8% in '08	CBOE Total Equity Options (# of contracts in millions) Jan: 50.4 (+6.8%) Dec: 47.2 (+10.8%) Record 7/08: 67.2 million	Short Interest (NYSE) Jan 15: 13.35B (-0.2%) Dec 15: 13.38B (+2.2%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500) 24.62 (1/29) 21.68 (12/31) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)	Jan.	12-Mo.	Yield	From 2008-2009 (includes recession), investors poured a net \$401.7 billion into bond funds, compared to \$242.7 billion in net outflows from equity funds, according to the ICI. Citigroup research, citing data from the Census Bureau, notes that only 14% of people 65 or older are willing to take "substantial" or "above-average" risk to earn bigger investment gains, compared to 33% of people 40 to 64, according to USA TODAY. In the 2000s, bonds outpaced stocks by an avg. of 7.28 percentage points per year (6.33% avg. for Barclays Capital U.S. Aggregate Index vs. -0.95% avg. for the S&P 500). The only other times bonds outpaced stocks for an entire decade were the 1930s and 1970s. In both instances, stocks rebounded in the following decades, outperforming bonds by an avg. of 10 percentage points, according to USA TODAY.
U.S. Treasury: Intermediate	1.42%	1.48%	1.84%	
GNMA 30 Year	1.26%	6.78%	4.13%	
Municipal Bond (22+)	0.48%	18.56%	5.24%	
U.S. Aggregate	1.53%	8.51%	3.37%	
Intermediate Corporate	1.66%	18.52%	3.91%	
U.S. Corporate High Yield	1.27%	51.15%	8.96%	
Global Aggregate	0.41%	11.00%	2.90%	
Global Emerging Markets	0.28%	34.36%	6.36%	

Key Rates as of January 29 Fed Funds 0-0.25% 2-Yr. T-Note 0.82% 10-Yr. T-Bond 3.59% 30-Yr. Mortgage 5.07% Bond Buyer 40 5.39% (Source: Bloomberg)	Key Yield Spread The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Bond was 536 basis points on 1/29/10, down from 538 on 12/31/09. It was 1,507 on 1/30/09. (Source: Bloomberg)	2009 Debt Issuance (Source: Thomson Reuters) <table border="1"> <thead> <tr> <th>Debt Category</th> <th>\$ Amount</th> <th>% change over '08</th> </tr> </thead> <tbody> <tr> <td>Treasury</td> <td>\$2.10 Trillion</td> <td>+102.2%</td> </tr> <tr> <td>Corporate</td> <td>\$874.9 Billion</td> <td>+23.7%</td> </tr> <tr> <td>Convertible</td> <td>\$33.0 Billion</td> <td>-21.4%</td> </tr> <tr> <td>Asset-Backed</td> <td>\$168.3 Billion</td> <td>+3.1%</td> </tr> <tr> <td>Municipal</td> <td>\$409.6 Billion</td> <td>+5.1%</td> </tr> </tbody> </table>	Debt Category	\$ Amount	% change over '08	Treasury	\$2.10 Trillion	+102.2%	Corporate	\$874.9 Billion	+23.7%	Convertible	\$33.0 Billion	-21.4%	Asset-Backed	\$168.3 Billion	+3.1%	Municipal	\$409.6 Billion	+5.1%
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The Investment Climate

Net cash outflows from equity funds totaled \$3.9 billion in 12/09, vs. \$2.6 billion of outflows in 11/09, according to the Investment Company Institute. Bond fund inflows totaled \$26.1 billion, vs. \$36.2 billion of inflows in 11/09. Money Market fund outflows totaled \$161 million, vs. \$48.6 billion of outflows in 11/09. In 2009, equity fund outflows totaled \$8.8B, vs. \$374.6B of bond fund inflows & \$536.7B of MMF outflows.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1073.87	-31.39%	-3.60%	2.15%
S&P 500/Citigroup Growth	953.77	03/27/00	363.99	03/09/09	551.93	-42.13%	-5.15%	1.60%
S&P 500/Citigroup Value	836.19	07/13/07	307.16	03/09/09	513.83	-38.55%	-2.02%	2.69%
S&P 400	926.23	07/13/07	372.88	10/09/02	702.8	-24.12%	-3.21%	1.58%
S&P 400/Citigroup Growth	383.7	06/05/08	162.27	10/09/02	301.86	-21.33%	-3.89%	1.01%
S&P 400/Citigroup Value	361.18	06/04/07	122.86	02/25/00	257.06	-28.83%	-2.54%	2.14%
S&P 100	832.65	03/24/00	322.13	03/09/09	495.09	-40.54%	-3.57%	2.24%
DJIA	14164.53	10/09/07	6547.05	03/09/09	10067.33	-28.93%	-3.32%	2.69%
NASDAQ 100	4704.73	03/27/00	804.64	10/07/02	1741.04	-62.99%	-6.39%	0.71%
Russell 2000	855.77	07/13/07	327.04	10/09/02	602.04	-29.65%	-3.68%	1.35%
Russell 2000 Growth	498.17	03/27/00	169.69	10/09/02	327.79	-34.20%	-4.47%	0.65%
Russell 2000 Value	1276.63	06/04/07	465.24	04/14/00	839.79	-34.22%	-2.93%	2.01%
Russell 3000	907.58	10/09/07	389.61	03/09/09	628.99	-30.70%	-3.60%	2.02%
MSCI World x U.S. (USD)	2389.57	10/31/07	809.32	03/12/03	1521.73	-36.32%	-4.67%	N/A
MSCI Emerging Markets (USD)	1338.49	10/29/07	245.64	09/21/01	933.59	-30.25%	-5.63%	N/A
Bovespa/Brazil (USD)	73516.81	05/20/08	8370.88	10/16/02	65401.77	-11.04%	-4.60%	2.70%
RTS/Russia (USD)	2487.92	05/19/08	131.02	01/03/01	1473.81	-40.76%	2.02%	1.15%
Bombay SE 500/India (USD)	8882.28	01/07/08	792.18	09/21/01	6509.9	-26.71%	-4.84%	1.01%
Shanghai Composite/China (USD)	6092.057	10/16/07	1011.499	07/11/05	2989.292	-50.93%	-8.78%	1.35%
Hang Seng (USD)	31638.22	10/30/07	8409.01	04/25/03	20121.99	-36.40%	-8.00%	2.66%
MSCI Euro (USD)	1590.66	03/06/00	539.93	03/09/09	831.08	-47.75%	-5.34%	3.86%
S&P Consumer Discretionary	318.54	06/04/07	125.72	03/09/09	228.13	-28.38%	-2.88%	2.61%
S&P Consumer Staples	306.61	12/10/07	150.55	03/14/00	270.88	-11.65%	-1.08%	2.93%
S&P Energy	668.81	05/20/08	163.83	07/23/02	410.57	-38.61%	-4.50%	2.14%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	149.93	-33.04%	-4.93%	4.37%
S&P Financials	509.55	02/20/07	81.74	03/06/09	190.92	-62.53%	-1.39%	1.40%
S&P Banks	414.38	02/20/07	49.02	03/05/09	136.5	-67.06%	8.97%	1.57%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	327.88	-51.54%	-5.21%	4.19%
S&P Health Care	444.98	12/28/00	252.84	03/05/09	363.75	-18.25%	0.49%	2.04%
S&P Pharmaceuticals	496.83	12/28/00	214.5	03/03/09	305.49	-38.51%	-0.19%	3.60%
NYSE Arca Biotechnology	996.69	01/19/10	280.09	07/10/02	964.34	-3.25%	2.36%	1.64%
S&P Information Technology	988.49	03/27/00	172.88	10/09/02	339.38	-65.67%	-8.43%	0.92%
Philadelphia Semiconductor	1332.73	03/10/00	171.32	11/20/08	316.07	-76.28%	-12.15%	1.29%
S&P Telecom Services	322	04/03/00	79	09/30/02	103.95	-67.72%	-8.21%	6.00%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	240.06	-37.02%	-1.16%	2.48%
S&P Materials	285.91	05/16/08	102.55	10/09/02	182.5	-36.17%	-8.61%	1.91%
Philadelphia Gold & Silver	206.37	03/14/08	41.85	11/17/00	147.93	-28.32%	-12.05%	0.59%
Reuters/Jefferies CRB	473.52	07/02/08	183.52	10/22/01	265.59	-43.91%	-6.28%	N/A
Merrill Lynch Perpetual Preferred	197.851	05/08/07	51.791	03/09/09	136.18	-31.17%	1.05%	7.72%
Merrill Lynch High Yield Master II	232.286	01/18/10	106.667	10/10/02	230.347	-0.83%	1.51%	8.95%