Weinstat & Weinstat
Investment Advisors & CPA's

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Greetings,

Enclosed is your investment report through March 31, 2010. Your YTD return is 7.8% The YTD return of the S&P 500 is 4.9%. It is nice to see that we are off to a great start in both absolute terms and relative to the broad market. While we still have a long way to go, it is certainly preferable to start off strong as opposed to playing catch up. During the last quarter, we did experience the long awaited, anticipated correction. As I expected, it was not severe and passed rather quickly. I do expect quite a bit of volatility going forward, despite the recent calmness of the market. I wouldn't be surprised if there is another pull back within the next 3-9 months. However, with money market yields at less than 1%, short term CD's yielding less than 2% and a ton of cash still on the sidelines, I expect any pull back to be brief and mild.

The most hated bull market continues to move right along. Historically, the stock market climbs a wall of worry. There is plenty of worry out there and the stock market has continued to climb higher. Even as the market climbs higher and the economy improves (al be it at a snails pace), the vast majority of individual investors are petrified at the thought of putting new money to work. As opposed to last year when virtually all of the new cash went into bond funds, equity funds have attracted a modest amount of new cash this year.

As I wrote in previous letters, 90% of what I listen to on CNBC is utter nonsense. The 10% that is useful information makes it worth listening to the other 90%. Not too long ago, I was listening to a knowledgeable guest explain to the host why he expected the stock market to continue to do well. He said "if Joe stupid is putting all of his money into bonds and bond funds, then I want to put all of my client's money into equities". He continued by saying "I would rather buy Greek bonds than the 10 year Treasury with a 3.7% yield". My wife also recently heard an earful from someone (whom I also happen to know) she saw very recently. He let her know in very certain terms why the stock market will soon "crash". While I do not think this person is "stupid", I do believe that much of what was repeated to me is based on ignorance of what makes the stock market work and misinformation about the economy. I also strongly believe that much of what this person believes is typical of what much of the public thinks and why there is so much negativity out there. I like to deal with specifics so I will go into a couple of items. One item that was pointed out was that corporate earnings are artificially high because of all the expenses they are shedding. He also said with unemployment so high, the consumer has no purchasing power and that fact will hurt corporate profits. This is an example of a little knowledge being a dangerous thing. It is true that corporations have improved the bottom line by shedding expenses; among the biggest cuts have been labor costs. However, as I wrote in my previous letter, if corporate earnings don't show top line growth and soon, then the stock market will no longer continue to go up. In the recent quarter, corporations showed an increase in revenue so the increase in earnings was not

solely from cutting expenses. Many companies are also returning value to shareholders buy increasing stock buybacks and dividends. I could not agree more that the high unemployment is a problem and most consumers are not in good shape. However, the unemployment rate is a rear view indicator. As I also wrote in a previous letter, if I (and the market) expected the unemployment rate to stay where it is now, then the stock market would be going nowhere fast. The unemployment rate has recently come down and it will continue to do so. I am disappointed that the labor market is improving so slowly. As long as there continues to be an improvement in the labor market, the stock market rally should continue. Rest assured, there will be bumps along the way. It is frustrating that the market drops so much faster than it rises. I do think that the bumps will be closer to speed bumps than potholes.

This is a liquidity driven market. I don't want any misunderstanding about that. Long term interest rates have risen lately but they are still very low by historical standards. I expect there to be quite a bit of chatter in the coming months about rising interest rates. After all, the talking heads need something to justify their existence, right?? Everyone knows that interest rates are going up, sooner or later. Unless the Federal Reserve changes course and starts raising short term rates at its next meeting or two, I doubt that its action will shock the markets. If anything, it could be met as a positive sign that the Fed. has confidence that the economy is improving. Goldman Sachs recently said that they didn't think that short term rates will go up until early 2012. At this point in time, my feeling is that short term rates won't start going up until early to mid 2011. My belief is based on the fact that I don't think that Ben Bernanke wants to raise rates until the unemployment rate goes below 9% and stays there for at least a month or two. My feeling is that the labor market will improve ever so slowly, keeping the unemployment rate at or above 9% through year end. You must keep in mind that the labor market has to absorb a lot (I don't have the exact number at my fingertips) of new people coming into the work force just to keep the unemployment rate at where it is. Ben Bernanke has made it very clear in all of his statements that interest rates will stay low for awhile. The last thing that he wants to do is raise rates too early and risk a double dip recession. Inflation is not a threat for the foreseeable future, despite the scarily high Federal deficit. Of course, if the economy and the labor market picks up faster than I anticipate, then interest rates will go up earlier. At this point in time, I just don't see that happening.

Please call or email me if there is anything that you want to discuss or if you have any questions.

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