

April 7, 2011

Dear Valued Investor:

The transition from March to April generally marks the turning point in the seasonal calendar from winter to spring. For many Americans, this transition also marks the end of pothole season and the beginning of mud season. While the daily commute might inflict less damage on their cars, it will not always be a clean ride in the coming weeks and months. As I reflect on the performance of the stock market in the first quarter, I see a market that dodged many potholes to deliver another quarterly gain for investors. Though stocks enjoyed their best first quarter in nearly fifteen years, the strong performance may leave less fuel for gains between now and the end of the year as investors try not to get dragged down in the mud.

The stock market, as measured by the S&P 500 Index, gained 5.9% in the first quarter of 2011 and marked the best first-quarter gain since 1998. It was not a smooth ride higher as the index gained 7% in the first six weeks of the year, gave up all of those gains between mid-February and mid-March, then moved higher in eight of the last eleven trading sessions to finish out the quarter. Throughout the quarter, potholes aplenty attempted to impede the market's move higher: crippling snowstorms that buried most of the country in January, a potential U.S. government shutdown, state and municipal budget battles, ongoing European debt issues, oil prices above \$100 per barrel and gasoline prices that approached \$4, violence and political uncertainty in North Africa and the Middle East, and the earthquake, tsunami, and nuclear accident in Japan.

Despite the potential for one or more potholes to create a flat tire, another strong earnings season and an improving economy kept the car on the road through the first quarter. More than 72% of S&P 500 companies reported better-than-expected earnings in the fourth quarter of 2010 and more than 62% of companies exceeded revenue forecasts. Looking at the upcoming first quarter 2011 earnings season, a resilient global economy, strong manufacturing data, a quiet pre-announcement earnings season, and continued positive revisions to earnings estimates all bode well for investors. Consumer spending remained solid in the first quarter despite elevated levels of unemployment. Yet, I am encouraged by recent trends on the jobs front, as the U.S. government employment report for March showed nonfarm payrolls gained 216,000, the biggest number yet for this recovery, and the unemployment rate fell 0.1% to 8.8%. Additionally, the number of temporary workers in the workforce, one of the best leading indicators for future job gains, increased in March as did hours worked, while overtime hours remained steady. These metrics indicate to me that companies are probably running at or near peak capacity and need to hire new employees in order to expand production.

The market's resiliency in the first quarter is encouraging, and I think the market can move higher from here. Given our expectations for mid-to-high single-digit returns this year, however, the stock market likely does not have enough gas left in the tank to deliver gains similar to those witnessed in the first quarter. I do not think the market will run out of fuel, but it is likely to be a slower ride as the market does its best to navigate the road, and mud puddles, ahead.

As always, I encourage you to contact your financial professional if you have any questions.

Best regards,



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