

Stocks Post Strong First Quarter after Brief Correction

The market encountered negative news on a wide variety of fronts as 2011's first quarter progressed, but after declining more than 6% from their Feb. 18 peak, stocks turned around and resumed their extraordinary upward climb, posting their best first-quarter advance since 1998. As the quarter closed, investors seemed to have shaken off fears of rising oil prices, repercussions from the Japanese disaster, concerns over military intervention in Libya and widespread unrest elsewhere in North Africa and the Middle East, and mixed news on the economic front.

Equities entered 2011 with a full head of steam, posting their best January gains in 14 years, and by mid-February the broad S&P 500 Index had almost doubled from its Great Recession low of March 9, 2009. However, investors were blindsided by rapidly spreading popular uprisings in the Middle East that forced Egyptian President Hosni Mubarak out of power and also threatened long-time leaders in several other oil-rich nations. Lingering anxieties over the durability of the U.S. and global economic recovery came to the fore, and those worries were exacerbated by the March 11 disaster in Japan. Stocks fell sharply after news of that tragedy broke, with the S&P 500 dropping almost 50 points in three trading sessions. However, the index then reversed and, despite a slight decline today, finished up more than 5% for the quarter (see chart below).

	3/31/11 Close	12/31/10 Close	Change	Gain/Loss
DJIA	12,319.70	11,577.51	+742.19	+6.41%
NASDAQ	2,781.07	2,652.87	+128.20	+4.83%
S&P 500	1,325.83	1,257.64	+68.19	+5.42%

Bull and bear markets each exhibit distinct characteristics that are sometimes described as "moods," with optimistic bull markets generally undeterred by negative news and pessimistic bear markets seeming to ignore positive economic developments. That phenomenon was evident in the first quarter, which presented investors with plenty to worry about but failed to break the market's upward momentum. In addition to the issues already mentioned, gasoline and food prices rose, home values fell even further, consumer sentiment slipped, new strains appeared in the eurozone – and stocks shrugged it all off and marched ahead.

To be sure, there was good news as well, including increased spending by consumers and businesses, a slight improvement in the jobless rate, strong corporate profits, and a better-than-expected upward revision of economic growth for the last quarter of 2010. In addition, the Federal Reserve, while again pledging to keep interest rates low, commented that the economic recovery "is on a firmer footing," obviously a welcome view. In the coming weeks, markets will focus on first-quarter earnings reports as they look ahead to the rest of the year.

As the past quarter has shown, it's important to have a long-term investment strategy and not to be thrown off by unexpected events, however significant they may appear at the

moment. At the same time, it's a good idea to periodically review your strategy. If you'd like to discuss that – or have any other questions or concerns – please give me a call.

Investing involves risk, and investors may incur a profit or a loss. Past performance is not an indication of future results. Investors cannot invest directly in an index. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks.