



April 8, 2009

## FIRST QUARTER 2009 NEWSLETTER

Volatility still ruled in Q1 2009 with the market rising or falling based on the news of the day. We have seen the market move more in a week than it sometimes does in a year. The bears ruled in January and February, each of which was among the worst months in the history of the Dow. The bulls re-emerged in March as the Dow rose 12.5%, its best market month in six years.

### Review of Previous Quarters:

	<u>12/31/07</u>	<u>12/31/08</u>	<u>03/31/09</u>	<u>YTD Change as of</u> <u>3/31/2009</u>
S&P 500	1,468.36	903.25	797.87	(11.67%)
Dow	13,264.82	8,776.39	7,608.92	(13.30%)
NASDAQ Composite	2,652.28	1,577.03	1,528.59	(3.07%)
MSCI EAFE	2,253.357	1,237.420	1,056.233	(14.64%)
10-Year Treasury Note	4.03%	2.25%	2.67%	+42 basis points
3-Month T-Bill Rate	3.31%	.11%	.21%	+10 basis points
Price of Gold (COMEX)	833.20	878.20	920.70	+4.84%
Crude Oil (NYMEX)	95.92	39.22	48.82	+24.48%

*Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.*

- **Treasury Bills** are certificates reflecting short-term (under one year) obligations of the U.S. government.
- The **S&P 500** is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The **NASDAQ** composite is an unmanaged index of securities traded on the NASDAQ system.
- The **Dow Jones Industrial Average (DJIA)** commonly known as "the dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.
- The **MSCI Europe, Australasia and Far East Index** is a market capitalization weighted selection of stocks from 21 developed nations excluding the US and Canada.

**In poker terms, the Treasury and the Fed have gone *all in*.” – Warren Buffet – February 27, 2009**

The Treasury is spending \$700 billion on TARP and another \$700 billion on the stimulus package. The Fed is expanding its balance sheet from about \$1 trillion to \$4.1 trillion by the end of the year, as it buys up all kinds of outstanding debt.

Since 1949, every government sponsored stimulus package has worked and this time should be no exception. We should expect to see a marked improvement in GDP growth in coming quarters relative to the dismal results of Q4 2008.

There will be a price to pay for this massive economic rescue plan in the form of a ballooning federal deficit. Interest on the debt will claim a larger and larger share of the federal budget. The inevitable result is either higher taxes or less money to spend on everything else. For Washington policymakers, there is a long series of tough choices ahead.

In any event, Uncle Sam will have to borrow a lot more money in the future. Long-term Treasury rates will need to climb to continue to attract investors to fund our deficit.

It is likely there will be no escape from inflation given the accelerated flow of money and reserves. Count on the Fed to reverse course and raise short-term rates at the first signs of economic recovery. At this moment, however, inflation remains on the back burner.

**“BEAR MARKET WINDING DOWN”– headline in The Chartist newsletter on March 19, 2009**

A number of savvy market strategists we follow are becoming progressively more constructive on the market. While they might not be ready to flash the all-clear signal, there is the feeling that the bulk of the damage in this bear market has already occurred.

It is important to recognize that the market is a leading indicator. Stocks tend to anticipate the future and historically start rising several months ahead of the economy.

**“Clinging to cash or long-term government bonds at present yields is almost certainly a terrible policy if continued for long.” – Warren Buffet – February 27, 2009**

Our belief is that investors should now focus on positioning for success in an improving market environment.

As Warren Buffet points out, standing pat in low interest, cash and Treasuries is an unlikely path to success for the next few years. The investment world has gone from under pricing risk several years ago to overpricing it. We must find a balance between being overexposed to the stock market and underexposed to the point where one will miss out on any potential rally and lock in losses.

We have enjoyed a substantial rally in recent weeks, providing a good selling opportunity for anyone overexposed to equities or whose risk tolerance has changed. Conversely, those underexposed to equities should consider buying on a pull back from current levels where suitable.

**Did diversification fail?**

We have spent a lot of time over the last six months reminding our clients that it is often best to sit tight on a well diversified portfolio, even in the midst of a bear market. We would point out that, while a repeat of past performance is not guaranteed, after past market crashes, equities have most often gone on to produce healthy gains over the next several years.

This advice has yet to bear fruit and it is evident that diversification did not perform as well as we anticipated in this most recent crisis.

The severity of the crisis, where our financial system itself was in peril, caused investors to abandon all but the most conservative assets, undermining the value of virtually all investment assets outside of US Treasuries.

We continue to believe, however, that diversification is important for the long run. We believe that diversified portfolios should, once again, have the ability to deliver potentially attractive risk-adjusted returns. We stress an accurate assessment of risk tolerance and time horizon as key factors in building a properly diversified portfolio.

We suspect the markets may remain turbulent for some time, but we anticipate the final chapter of this crisis will be similar to those before it. The end result could be positive returns for investors who stay the course in diversified portfolios. Keep in mind that diversification does not guarantee a profit nor protect against loss.

**Our Strategy**

We continue to adhere to Modern Portfolio Theory as the basis of our investment management philosophy. We focus on strategic asset allocation designed to achieve financial goals and manage risk.

This period of crisis has been a learning experience, and we have incorporated several approaches that complement strategic asset allocation. We are making increased use of tactical asset allocation, which calls for overweighting or underweighting a given sector in response to current market conditions. We are paying particular attention to building a mix of investments that is designed to meet retirement income needs. Finally, we are making use of trailing stop orders to help limit potential losses or lock in profits on a portion of a portfolio.

*Please be aware that asset allocation strategies do not assure a profit and may not protect against losses in declining markets.*

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## Happenings at MCM

We continue to evolve and grow as a team at MCM, and we are committed to keeping our team intact in spite of difficult market conditions.

We are an ensemble practice such that you are likely to interact with all five of us. At different points in time, you may receive investment advice from Bill, Hilary or Bob.

There are a number of initiatives underway in the 529 college savings marketplace. Many of you will hear from us soon with recommendations for your 529 account.

Over the last year, Bob passed several securities industry examinations such that he is now able to serve as Co-Branch Manager with Bill. In just the last month, Kerry passed the Series 7 General Securities exam and the Series 66 Investment Advisor Representative exam, making her a Registered Sales Assistant in our office, able to place orders and handle trades. It is a remarkable achievement for a young person to complete two very difficult examinations in rapid succession. Congratulations Kerry!

Both MCM and Raymond James are going green! At MCM, more and more of our written client communications are delivered by email. Please share your email address with us if you have not done so already. Raymond James has begun to deliver shorter, executive statements to those clients with straightforward, uncomplicated accounts. All clients have the ability to receive electronic delivery of monthly statements and other correspondence from Raymond James. You have the ability to discontinue paper statements by making an election on Investor Access.

We have been extremely busy throughout tax season and have observed that email is an ideal method for addressing many routine inquiries. Please don't hesitate to reach out to Maureen at [maureen.nyman@raymondjames.com](mailto:maureen.nyman@raymondjames.com) the next time you are in need of assistance.

Have you been to the MCM web site, [www.raymondjames.com/MendhamCapitalManagement?](http://www.raymondjames.com/MendhamCapitalManagement?) We live in a rapidly changing world and you will find our site to be a great resource that is continuously updated with timely investment commentary and links to latest financial news. There is a wealth of information at your fingertips, including a link to Investor Access and a many other RJ resources.

To encourage web site inquiries, we are offering a “fabulous” prize to the first three clients to email Maureen the correct answer to all of the following questions;

1. It's late at night and you realize you need to fill out a form to authorize us to transfer money from your account to a relative in need. There is no time to speak with us before the limo pick up for your early flight to the west coast at 5 a.m. the next morning. Which two links do you need to access the form you need?
2. The Chief Investment Strategist for Raymond James writes an excellent weekly investment strategy piece which is displayed on the web site. What is his name?
3. Bob began his career on Wall Street just over 20 years ago. What was the name of his first employer in the financial industry?

Don't delay. We are quite certain the prizes will be claimed very quickly. We can award just one prize per household.

### **Personal Notes**

Hilary spent a week at the Raymond James Conference for Professional Development in early March. We have already implemented a number of practice management techniques which have improved our effectiveness.

Maureen just completed a major renovation project on the townhouse she purchased late last year. She has a beautiful new kitchen and a state of the art home office.

Bill has been working with a nutritionist for the last eight months and has succeeded in losing 20 pounds. He aspires to lose 20 more by Labor Day!

We are most appreciative for the many referrals provided to us in recent months. We are particularly grateful given the difficult economic and market conditions that have affected all of us. As always, we thank you for your continued trust and support.

Sincerely,



William F. Burke, Jr.  
Registered Principal/Investment Consultant  
Raymond James Financial Services, Inc.



Hilary L. Larkin  
Investment Consultant  
Raymond James Financial Services, Inc.



Robert J. Burke  
Investment Consultant  
Raymond James Financial Services, Inc.

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27 East Main Street, Mendham, New Jersey 07945 \* Tel:973-543-6670 \* Fax: 973-543-6680  
[www.raymondjames.com/MendhamCapitalManagement](http://www.raymondjames.com/MendhamCapitalManagement)

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