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## FINANCIAL CONCEPTS, INC. – QUARTER 1 - 2010.

### MARKET RESEARCH & INVESTMENT COMMENTARY 10:

#### *Dear Clients:*

As we conclude the first quarter of 2010, all of us here at Financial Concepts, Inc. hope that you are enjoying the New Year. During the past few months, the market appears to be reacting positively to the combined efforts of both private business and the federal government to repair our economy.

The Federal Reserve continues to pump additional money into the banking system and companies remain focused on growing revenues and reducing costs. We believe that these efforts to restore and sustain economic growth may offer investors a wide variety of different opportunities in the future. Our research staff has noticed the following trends.

#### **BAILOUT** –

Last year, Congress officially signed off on the \$ 700 billion dollar Troubled Asset Relief Program (TARP) as a way for the Treasury to improve the credit markets. After formal estimates were reexamined, the Treasury now believes that it will use only \$ 550 billion, as two-thirds of the bailout funding lent to major banks has been repaid with interest. *(See End Note 1)*

#### **DEAL FLOW** –

Mergers and acquisitions have been in a slump since 2008, but many feel that as the market stabilizes and the global economy improves, the volume of corporate transactions should rise. Factors supporting this are less costly acquisition targets, access to additional financing at better terms, and an increase in competition. The range of deal size is projected to be between \$ 250 million to \$ 1 billion, with energy, industrials, and financials topping the list. *(See End Note 2)*

#### **HEALTHCARE** –

Politicians have been very busy working to upgrade the nation's healthcare system, and have faced delays as they strive to create an optimum budget plan. Lawmakers are pushing for a variety of initiatives to cover the tens of millions of uninsured Americans without contributing to the rising national deficit. This nationalized agenda calls for the largest healthcare change in close to four decades, with support coming from medical subsidies and exchanges. *(See End Note 3)*

#### **LENDING** –

Despite slower loan growth, banking standards are starting to relax, allowing businesses to once again borrow and expand. Being able to access credit has always played a big role in our economy, but it has rarely been as crucial as it has been during the past few years. Small companies often use standing lines of credit from banks as a way to replenish inventories, purchase new equipment, and increase payrolls, all components of a self sustaining recovery. *(See End Note 4)*

## **DEFICIT –**

President Obama recently formed a commission to find successful ways to shrink the budget deficit from a current level of 10.6 % of gross domestic product to a level of just 3 % by 2015. This group is expected to scrutinize entitlement programs, may reduce military spending, and might allow existing tax exemptions under the Bush administration to expire. There is the possibility that the commission will recommend a rise in corporate and personal income taxes. (See End Note 5)

## **RESERVES –**

Despite double digit unemployment and our expanding deficit, the amount of cash equivalents sitting on the sidelines has topped \$ 9 trillion dollars, higher than levels during the past two years, where figures were closer to \$ 7 trillion dollars. Most of this is sitting in various low yielding bank instruments, namely money market funds and certificates of deposits.

There has been a long standing degree of pressure on the U.S. dollar, with lower interest rates as one of main reasons. The Federal Reserve hopes to encourage people to pursue riskier assets, such as stocks and bonds, as a way to earn better rates of return than what cash is currently paying. This may set the stage for a future bull market. (See End Note 6)

## **DIVIDENDS –**

So far this year, companies in the S&P 500 have announced \$ 4.4 billion in combined net dividend increases, the largest quarterly gain during the past two years. The reason behind these increases comes from the recent turnaround in corporate profits, as a result of greater efficiencies that companies instituted during the early part of the credit crisis.

Now that profits are recovering and corporate balance sheets have record amounts in excess of \$ 832.4 billion, investors may begin to take a closer look at what these companies plan to do with their additional cash-flow. Shareholders, both retail and institutional, may request these future earnings streams be actually distributed and paid out. (See End Note 7)

## **SPENDING –**

The Commerce Department recently stated that business spending on equipment and software rose at a 13.3 % annual rate in the fourth quarter, which was the fastest growth rate since 2006. Much of these receipts were allocated toward technological goods and services as companies seem quite eager to boost productivity and improve their infrastructure.

Some economists think that companies will also begin to spend part of this earned income by expanding their market share and hiring additional workers as the business cycle gradually improves. These decisions should help reduce the rate of unemployment, and as a notable consequence, strengthen the rate of personal consumption. (See End Note 8)

## ***In closing,***

We recognize the fact that the market may defy conventional wisdom and logic in the short term. However, the task of creating wealth over the long term, usually becomes much more transparent.

Sincerely,

*Michael S. Standridge*

*Portfolio Analyst*  
Financial Concepts, Inc.

<b>FINANCIAL MARKET DATA AND STATISTICS FOR APRIL 29, 2010</b>
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Year to Date Statistics*	Current Rates*	Current Yields*
DOW – ▲ 7.10%	Oil Price @ \$85 barrel	Federal Funds @ 0.25%
NASDAQ – ▲ 10.70%	Gold Price @ \$1168 ounce	30 Y Mortgage @ 5.22%
S&P 500 – ▲ 8.20%	Euro per Dollar @ 0.7549	10 Y Treasury @ 3.728%
Russell 2000 – ▲ 18.00%	Core Inflation – ▲ 2.31%	5 Y CD'S @ 2.59%
CBOE VIX – ▼ 14.90 %	Unemployment @ 10.20%	Money Market @ 0.78%

*End Note Source Disclosure:*

End Note 1 – Fortune Magazine, February 2010  
 End Note 2 – Equities Magazine, March 2010  
 End Note 3 – Bloomberg, January 2010  
 End Note 4 – Investment Advisor, February 2010

End Note 5 – Business Week, March 2010  
 End Note 6 – Investors Business Daily, February 2010  
 End Note 7 – Wall Street Journal, January 2010  
 End Note 8 – The Washington Post, March 2010

- Year to date statistics, current rates, and current yields are all from the Wall Street Journal as of April 29, 2010.

*There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. The price of commodities is subject to substantial price fluctuations of short periods of time and may be affected by unpredictable international monetary and political policies. The market for commodities is widely unregulated and concentrated investing may lead to higher price volatility. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications, and other factors. Foreign investments involve special risks including greater economic, political, and currency fluctuation risks, which may be even greater in emerging markets. Indexes cannot be invested in directly, are unmanaged and do not incur management fees, costs or expenses. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results.*

*Information is based on sources believed to be reliable, however, their accuracy or completeness cannot be guaranteed.*