Market Notes May 14th 2009

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Today we saw some surprising weakness in retail sales numbers, oil inventory and demand numbers. Morris Segall of SPG Trend advisors noted that consumer spending was weaker than expected in virtually every category in the retail sales report. Mr. Segall further stated that gasoline and oil consumption remains weak despite last month's lower oil and gasoline prices. (Note: this was prior to the current increased prices.)

Lowe *fs* concludes that consumer demand continues to remain depressed when considering combined lower new mortgage originations and fewer refinances. Elevated unemployment numbers, consumer focus on repayment of existing debt and building savings all translate into little or no spending.

Lowe *fs* has been saying that we believed we were at or near the bottom of the economic downturn. We continue to believe that the downward trend of the economy is slowing. In earlier commentaries we often stated that there would not be a sharp economic recovery. We also said that while the decline is slowing and leveling out the economy would likely remain at the bottom for a period of time.

The data today does not change our view that we are indeed near the economic bottom. It does, however, cause us to push back our view regarding any potential recovery. We believe that the economy is likely to stay at or near the bottom for a longer period of time. Certainly the optimism regarding the economy that has come out of Washington and Wall Street over the past several weeks may have been premature.

Historically, the stock market has been what is called "a forward looking indicator." This means that the market does not wait for the economy to actually get better before it recovers. Rather, it could recover based on what the investor views of any potential economic recovery might be.

It is entirely possible that we could see a 10% correction in the market in the near term. We still believe, however, that we have seen the market bottom. In our view it would take an extraordinary event to cause it to drop below the levels of early March.

Interestingly, we believe that the correlation between movements in the prices of gold and oil will potentially continue. There may be some short term downward pressure on these and other commodity sectors. However, over the next year or two we believe that we will be entering an inflationary environment and the value of the dollar will be

declining relative to foreign currency. In this environment, we expect gold and oil to be important components of our client portfolio diversification.

Recently, Lowe *fs* has been gradually shifting to a strategy that is longer term in focus (12 to 24 months) in our actively managed discretionary portfolios. In some cases we have incrementally purchased equity holdings when the market was down. We believe that this will prove to be a potentially successful strategy over the long term. However, one must remember that shifting from an ultra-short term strategic view to one of 12 to 24 months sets a longer time frame for evaluating the success of the strategy.

As we have stated in prior communications, it is our belief that the Dow (see index disclaimer) could recover to anywhere from 9,000 to 10,000 in the next 12 to 24 months. However, it could revisit 7,000 on the way to those levels. Nothing we have seen today changes our outlook and our recovery strategy remains intact.

In many allocations we continue to have elevated levels of cash, which we will put to work as appropriate.

While we have shifted to a longer term strategic outlook, Lowe *fs* continues to focus on short term risk. If we observe that downward pressures are becoming significant we will, where appropriate, consider adding holdings that have the potential to move in the opposite direction of the market back into our actively managed discretionary accounts.

We do not think that the use of hedging techniques will be immediately required due to a very different mindset in the present market and to positive investor sentiment. However, they do remain on the table if necessary.

Any economic and market recovery is a process. As we said last week, the speed at which the market had recovered without any significant correction concerned us. Pauses in recovery are a healthy and necessary part of any sustainable market recovery. A pullback will be uncomfortable especially given the fresh wounds of the past year. Yet in the long run it is much healthier for the markets and could lead to greater potential sustainability.

As always if you have any questions please call or email us.

Important Disclosures

Not all portfolios are actively managed. If you have a question about how your account is being managed please contact us.

No diversification can completely protect against market risk or other risk factors with investing. A diversified portfolio could still lose money.

An Index is a portfolio of specific securities (common examples are S&P, DJIA, NASDAQ), the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and

investors cannot invest directly in an index. Past performance is not indicative of future results.

Foreign investing carries additional risk such as currency risk, political risk and different accounting standards.

Lowe fs is a registered investment advisor.