

Market Notes January 26

The Politics of the Market

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Last Friday, several key senators began to elevate pressure on Fed Chairman Ben Bernanke. The stock market reacted with a third day of declines. However, as of today, the stock markets appear to be taking a respite based on growing support for Bernanke.

If Ben Bernanke's confirmation were to fail we believe that the credibility of our monetary system and monetary policy would be undermined at this critical time. There could be a swift and significant downturn in the stock market.

This is not so much about whether or not Chairman Bernanke has done a good job or not. Rather, the stock market does not like uncertainty on any level. The Central Bank is clearly an area that needs to be a stabilizing force during this period of recovery.

All signs indicate that the "Bernanke Storm" will pass and that cooler heads will prevail and that Chairman Bernanke will be confirmed to his second term.

Lowe *fs* will be watching the stock market closely this week. Presently, we do not foresee any compelling reason to increase cash positions or add potential hedges to our actively managed portfolios. We will notify you if our view changes or if we believe a specific strategy is warranted.

The Monday report that U.S. Home sales fell in December (Source: WSJ) is not a significant surprise. Home purchases often slow during the holiday season and many buyers anticipated the tax credit would end and may have deferred purchases. With the extension of the tax credit and the normal seasonal uptick, we expect home sales to regain momentum in the spring.

At this time, we believe that the first quarter of 2010 could be flat or down for the stock markets. However, if corporate earnings continue to improve and turn the corner toward recovery, we could see potential improvement by the second quarter. Further, if we see

the creation of jobs by July 4th or Labor Day, the risk of a double dip recession may diminish, especially if the private sector begins to stimulate the economy in the third and fourth quarters of 2010.

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.

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