

Observations

- ❑ **Where is the money?** Follow where Stimulus & TARP finally end up? What return on investment did America receive? Think about the following with respect to bank bailouts. When the foreclosures and short sales are complete, who got the money from the transactions? Think about the \$100,000 mortgage that defaulted and the property later sold for \$75,000. Did the bank write off \$100,000 and will show a future gain of \$75,000? Did the bank write off only \$10,000 and will have to realize another \$15,000 loss? It's more complicated, but there is a money trail. Follow it.
- ❑ **Listen up SEC and FASB.** How about the accountants step-up and mandate more transparent requirements. Two simple requirements will go a long way towards helping. First, the technology has evolved to the point where financial statements can be presented on both traditional generally accepted accounting principals (GAAP) and a fair market value (mark-to-market). Second, no more "off-balance sheet" or contingent liabilities. Disclose it all on the balance sheet. The company could provide an estimation of what percentage of these liabilities may be funded. Provide figures and allow the user of the financial statements decide how best to interpret the figures.

Facts & Figures of Importance

Economic

From Whom are Taxes Collected? (2009 IRS Data)

Make no mistake. The individual pays all taxes either directly or indirectly. Individuals pay estate and gift taxes, employment taxes directly, and corporate and excise taxes are passed along to consumers in the price of goods and services.

| Type of Tax (billions) | 2008 | 2009 | % 2009 |
|-------------------------|----------------|----------------|-------------|
| Individual Income | \$1,060 | \$854 | 44.8% |
| Employment | \$877 | \$855 | 44.8% |
| Estate & Gift | \$29 | \$23 | 1.2% |
| Corporate/Business | \$301 | \$130 | 6.8% |
| Excise | \$49 | \$45 | 2.4% |
| TOTAL | \$2,316 | \$1,908 | 100% |
| Federal Spending | \$2,931 | \$3,518 | 100% |

Who Pays Income Taxes? (Based upon 2007 IRS Data)

There were 143 million individual income tax returns filed on \$1.1 trillion of taxes. Do you believe more taxes will work?

| Adjusted Gross Income | % of All Returns Filed | % of All Taxes Paid |
|------------------------|------------------------|---------------------|
| Over \$1 million | .27% | 27.8% |
| Over \$200,000 | 3.2% | 54.6% |
| Between \$50k - \$200k | 31.2% | 37.6% |
| Under \$50,000 | 65.6% | 7.8% |

Economic Outlook

- Do not believe media hype as this is a slow mend for the economy with more shocks to come. Inflation, taxes, and higher interest rates/energy prices restraining growth.
- Look beyond 2010. If you're old enough to remember the economy of 1978-1983, get ready. Likely starting time is mid-2011 to spring 2013 (after elections) as tax increase kick-in and debts must be paid.

Financial

| | Treasury Yields | | Equity Markets | |
|-------------------|-----------------|---------|----------------|-----------------|
| | 5 Year | 10 Year | S&P 500 | DJWilshire 5000 |
| 2005 | 4.35% | 4.39% | 1,248 | 12,518 |
| 2006 | 4.70% | 4.71% | 1,336 | 14,257 |
| 2007 | 3.45% | 4.04% | 1,468 | 14,819 |
| 2008 | 1.94% | 2.96% | 896 | 9,087 |
| 2009 | 2.69% | 3.85% | 1,115 | 11,562 |
| 3/31/10 | 2.55% | 3.84% | 1,169 | 12,222 |
| YTD Return | | | 5.39% | 5.71% |

When reviewing stock market returns consider different time periods and look at longer term historical figures. Let's evaluate the stock market decline of early 2009 one year later. For the one year period between March 9, 2009 and March 8, 2010, the S&P 500 rose 72%. For the calendar year 2009, the S&P 500 rose 26½%. Just as the market decline of 2008 has made longer term results appear disappointing, the increase in 2009 and early 2010 are in-line with historical market returns. Measurements from highs & lows can be deceiving. Get all the facts.

Two important points to remember. First, market returns revert to the mean. Simply put, the market averages out in the long run. Second, the overwhelming majority of investors does not just invest once and leave it alone. We add to investments over long periods of time (think working years) and then withdraw funds for a period of time (retirement or large purchases). Therefore, few investors match long term index returns.

Investment Outlook

- Anyone forecasting a stock market pullback is not exactly going far out on a limb. Equity markets go through cycles, so be patient as long-term earnings should move markets higher. Think long-term and try not to time the market.
- Bond prices will slowly fall. It would not be surprising to see spreads widen as rates remain below historical levels. A short end weighted bond ladder is a beautiful thing.

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Insightful Thoughts of Others

"We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."

- Winston Churchill

"The taxpayer -- that's someone who works for the federal government but doesn't have to take the civil service examination."

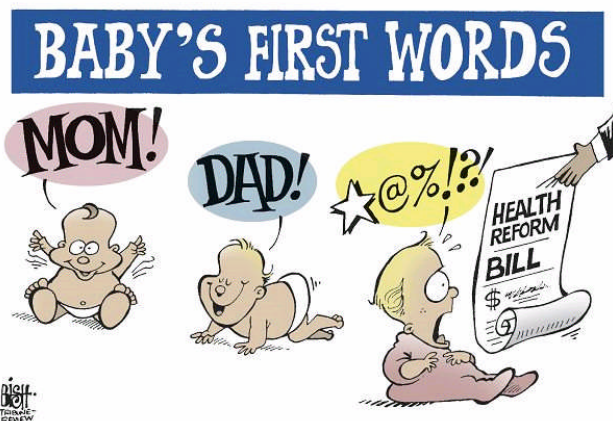
- Ronald Reagan

"You don't pay taxes - they take taxes."

- Chris Rock

"Elections should be held on April 16th- the day after we pay our income taxes. That is one of the few things that might discourage politicians from being big spenders."

- Thomas Sowell



A Few More Things

- If we can first agree that government should levy a tax to pay for necessary services to maintain a country, state, or municipality, **in what form should taxes be assessed?** Should taxes be paid on earned income, consumption, value of property owned, transactions, or some combination of these? To both boost the current economy and build a stronger foundation, the tax code should be simplified so that more people can easily understand and comply with it.
- There are scholars who study the Bible, Torah, Koran, and other religious documents which are less than **2,310 pages**. That happens to be the number of pages in H.R. 4872. You know the healthcare bill. Can anyone honestly say they have read the bill in its entirety, understand it, and believe it will make healthcare better?
- Labrador retrievers** are wonderful dogs. They were originally bred to help fishermen in Newfoundland pull in fishing nets. The dogs' coat comes in different colors; white, tan, brown, yellow, cream, black and yet they are still the same dog underneath their coats. People come in different colors too, yet we have a government and media that try to divide us by color (in order to conquer us – divide & conquer). At times, such as when searching for a particular individual, color along with sex, height, weight, and other visual descriptions are helpful. Yes, certain medical diseases are more common to a particular group (think Tay-Sachs or sickle cell anemia). However, why in the census is it necessary to know ethnic origin? Are we all not Americans? The fishermen in Newfoundland were more concerned with a Lab's ability to pull a net than the color of his coat. A famous American once said something about judging people by the content of their character rather than the color of their skin. It would be naïve to think racism will completely disappear. All people have biases. However, it is about time government and media stop perpetuating a self-serving agenda. We should judge them, with our votes and wallets, by their character and results of their work rather than the positions they hold.
- Technology today is over-promising and under-performing.** The desire for and the force feeding to us of "right now" is setting us up for disappointment. Media competition, instant analysis, tweeting, instant messaging, and other technology are in many ways creating new problems despite some of the benefits of technology. Many under age 35 may not understand the depth and complexity involved in both solving and preventing problems when a significant amount of their communication is limited to 140 characters (the limit of a message sent via Twitter) or less (texting).

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IS THIS OUR FATE? WHERE DO YOU SEE THE US IN THIS SEQUENCE?

A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves largess from the public treasury. From that moment on, the majority always votes for the candidates promising the most benefits from the public treasury with the result that a democracy always collapses over loose fiscal policy, always followed by dictatorship. The average age of the world's greatest civilizations has been 200 years. These nations have progressed through this sequence: "From bondage to spiritual faith; From spiritual faith to great courage; From courage to liberty; From liberty to abundance; From abundance to selfishness; From selfishness to apathy; From apathy to dependence; From dependence back into bondage."

- Alexander Frazier Tytler (in 1776; see Tytler Cycle)

5 Signs the US Experiment is Failing

- The absence of leadership and trust in America. This includes religious, government, educational, and business organizations. Moral hazards abound today as evidenced by no consequences for bad behavior and in some cases positive rewards for selfishness.
- The rule of law is no longer upheld as the foundation of America. Corruption and political self-dealings prevail at institutions that were once held in the highest regard. Regulations and laws that are ambiguous and confusing, whether by design or not, are diminishing respect for the law.
- The rapid decline of common sense due to more Americans who are apathetic, selfish, and/or uninformed. A significant portion of Americans believe in a nanny state where government controls major aspects of their lives.
- The transition away from a republic form of government to a democracy. Voters have discovered that they can "vote them selves largess". Politicians like their cushy jobs so they appease the masses. The numbers tell the truth in that the US is headed for financial failure unless significant changes are made immediately. There is no money growing on trees.
- A media that is more concerned with opinion and political agenda rather than news and factual reporting. Too much instant reaction and not enough thoughtful analysis. Saturation and sensationalization are destroying the message which results in more people ignoring news or becoming misinformed.

5 Reasons to Believe the US Experiment Can Succeed

- New leadership can emerge that not only can be trusted, but will establish an environment for a better America. People with morals and convictions can lead us forward to a better tomorrow. The institutions that we revere can be restored to fulfill their missions.
- A public demand for ethical and law abiding behavior will result in punishments for those guilty of betraying our trust. The executive and legislative branches are first (at federal, state, and local levels). Then the judicial system, especially trial lawyers, and Wall Street, will face the public's wrath.
- Learning from history is important. Unfortunately, not enough people learned the lesson of the US, liberty, and what it means to be an American. The new economic realities will compel Americans to learn those lessons, including why one should be thoughtful, accountable, and responsible.
- Economic realities will force government to make the necessary and difficult choices to save towns, states, and the Republic of the United States of America. There is not enough tax revenue to solve the problem. Spending must be curbed. If the Federal government just keeps printing money, eventually inflation will turn a dollar into pennies.
- As technology (i.e. the internet) has expanded, traditional media is in decline. Financial success and respect will be earned by providing accurate, meaningful, and factual news. This includes being the public watchdog over governments without promoting an agenda other than truth.

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