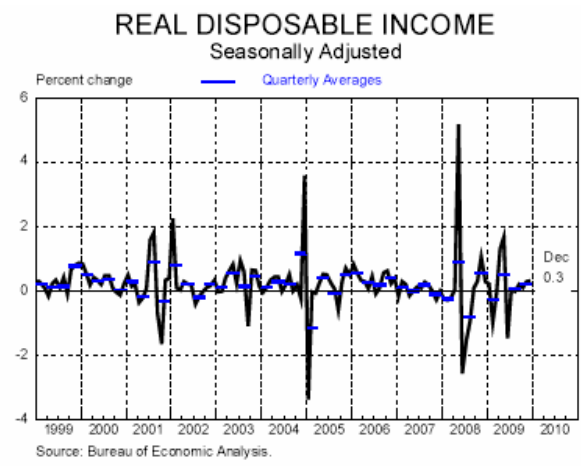


### Observations

- ❑ When payroll income tax withholding requirements were reduced last year that was not a tax cut. This year when people calculate and file their income tax, they will discover **refunds from over-withholding will be less** and those who usually owe money, will owe more. This will translate into less disposable income which should lead to reduced spending. The recovery is fragile and any pop from the consumer is unlikely next quarter.
- ❑ If Congress can put together an income tax plan that is less confusing and will likely not be modified for several years, both the economy and financial markets should respond favorably. It is the **uncertainty created by the bickering and posturing that has Americans more resentful** and ready to clean-out incumbents. At the state level, watch the budget battles in Virginia and New Jersey as early indicators of how states with new governors respond to the new financial realities. History teaches us what happens to governments that over-tax and/or over-spend. For those politicians in the present that skipped history, they will learn a very hard lesson.

### Facts & Figures of Importance

#### Economic



Try to find the back story to graphs and charts. Remember the “rebates” in 2008? The income tax withholding adjustments last year? Whatever happened to the green shoots from last spring? One time shots will not cure the problems or create permanent private sector jobs. **The US consumer is still tapped-out.** The combination of more taxes, more borrowing, and more spending is putting us in a deeper hole.

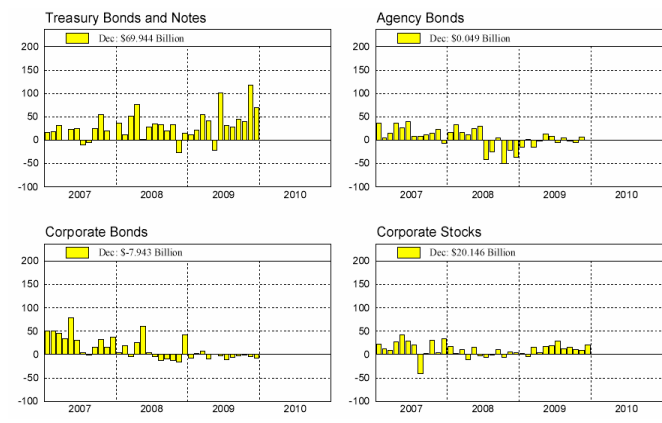
#### Economic Outlook

- Normalization by the Fed with the discount rate increase was a positive signal. However, watch monetary policy closely to see if it buckles to election year politics.
- There is tremendous pressure on Greece to address its economy PDQ. If and when the country’s credit rating is cut again, look for increased pressure on the Euro.
- The winter storms in the US will skew some first quarter economic data. Rely more on second quarter YTD figures.

#### Financial

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWilshire 5000
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
2/26/10	2.30%	3.61%	1,104	11,512
YTD Return			-61%	-0.43%

In 2009, foreign investors liked US equities, US Government debt, however preferred to sell US corporate bonds.



#### Investment Outlook

- Until the excess inventory is cleaned out, do not expect real estate to turn the corner. Keep an eye as to how mortgage rates respond after the Fed stops purchasing mortgages and the possible spill over effects in the bond market.
- Corporate earnings continue to be satisfactory and provide a market cushion at minimum. Long-term portfolios should be rewarded for their patience if the invest carefully.
- Returns slowly improve despite volatility and rhetoric.

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## Insightful Thoughts of Others

Our Constitution was not written in the sands to be washed away by each wave of new judges blown in by each successive political wind.

Supreme Court Justice Hugo Black

I believe the two biggest mistakes made by the Founders were giving Federal judges life-time appointments and permitting them to be confirmed without the agreement of two-thirds of the members of the United States Senate.

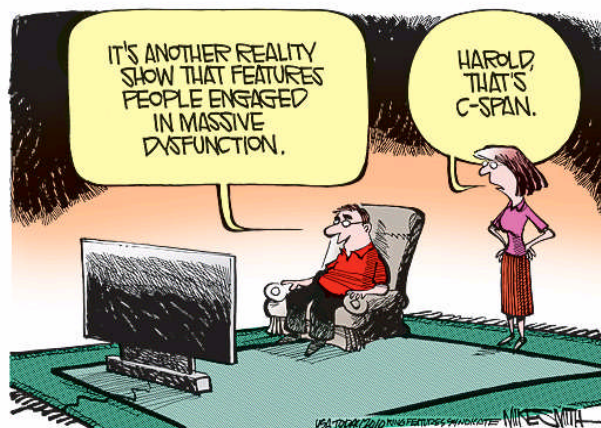
John Jay Hooker

Judges are the weakest link in our system of justice, and they are also the most protected.

Alan Dershowitz

A lie can travel halfway round the world while the truth is putting on its boots.

- Mark Twain or Charles Haddon Spurgeon?



## A Few More Things

- ❑ **The 2010 census is primed for all sorts of errors and omissions.** From those concerned about privacy not wanting to disclose information to those attempting to garner more by falsifying information. The census is already a political football. Its accuracy and the consequences will impact the next decade. Look for accusations of fraud and finger pointing to ramp up later this year (and census ads in fortune cookies - really).
- ❑ There are **36 senate seats up for election** in November. The scorecard shows 18 seats from each party to be defended. The D's are exposing 32% of their seats while the R's have 44% of theirs at stake. While there are five Democratic senators retiring, six Republicans are retiring, meaning at least 11 new senators will join the 112<sup>th</sup> Congress next January. We think that figure will be much higher, possibly as high as 17.
- ❑ There will be **37 gubernatorial elections** with the scorecard showing 19 Dems and 18 Reps seats up for this fall's elections. The D's have 11 governors either term-limited or not seeking re-election. The R's have 12 term-limited or not seeking re-election. Not as sexy as presidential elections, state and local elections should mean more to Americans than national elections as these folks usually have their hands deeper in our pockets.
- ❑ **Careful, before converting an IRA to a Roth IRA.** Yes, there *may* be advantages for some, however you must do the math to make sure it is truly a smart move. Projecting one's future income tax bracket is critical. Do you fully trust Congress not to tax Roth plans in the future? What if your Social Security or Medicare benefit or taxation of those benefits included the amount of your Roth IRA? It is not always an easy decision.
- ❑ **Estate tax chaos.** The federal estate tax for 2010 is currently zero. Why would Congress allow the estate tax to expire in 2010, especially when there is a huge budget deficit? On December 31, 2009, taxable estates in excess of \$3.5 million paid a top rate of 45%. On January 1, 2011, estates in excess of \$1 million will pay a top rate of 55%. Think about three people each with a \$10 million estate who pass-away December 2009, January 2010, and January 2011. Their federal estate tax bills would be approximately \$3.7 million, \$0-, and \$4.8 million respectively. Imagine the decision a family might have to make late this year if a wealthy loved one is on life support and there is no change in the estate tax law. There is credible speculation that Congress will pass a new estate tax and make the tax retroactive to January 1, 2010. Should the heirs of someone who has already died in 2010 have to pay an estate tax retroactively and would that pass muster in the courts based on the Constitution? If the tax law is made retroactive, look for the Supreme Court to decide the issue sometime about 2020 given how "efficient" the court system can be.

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