

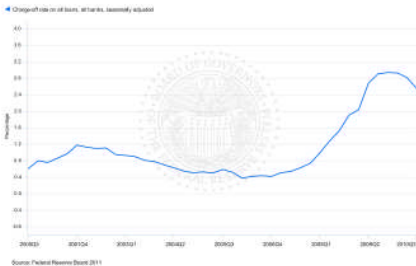
Observations

- ❑ Timing markets is a fool's folly. However, knowing that markets move in cycles and then ignoring certain signs, can spell trouble. Stock market sentiment tends to act as a contrarian indicator. Currently, sentiment is in the above normal range. Given that there are still economic uncertainties, a pullback or correction is likely brewing. Yes, the pendulum will swing too far in a bearish direction, at which point the buy signs will appear. Think long-term and you will be fine.
- ❑ With S&P 500 earnings projected between \$85 and \$100, how much are investors willing to pay for profits. If we look at the low end with earnings at \$85, a 15 multiple would value the index at 1,275. Bump up the multiple to 17, and the S&P would be valued at 1,445, however a 13 multiple drops the index to 1,105. Obviously, higher earnings would be better for prices. What is more important than 2011 earnings are what earnings can do over the long-term.

Facts & Figures of Importance

Economic

Charge-off Rate on All Bank Loans for the Past 10 Years



A rule of thumb for banks is that loan charge-offs should not exceed one-percent of the portfolio. In addition loan delinquency rates remain high. There is still a long road ahead for lenders to shape-up their portfolios. And just because a loan is "charged-off" does not mean it goes away. Efforts are made to "recover" charged-off loans. Recoveries will be interesting to watch over the next decade.

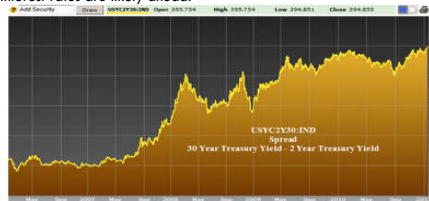
Economic Outlook

- At least the economic woes of the US, Japan, and developed Europe are on the table. Pressures are building within China and other developing markets. Expect a surprise to rattle markets later this year.
- Housing shows no sign of near-term recovery. If mortgage rates rise, expect prices to soften even more.
- Is the rise in consumer spending about people feeling more financially secure or saying "the heck with it the government will be there as my safety net". The answer probably is somewhere slightly tilted towards the later.

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
2010	2.06%	3.38%	1,258	13,360
1/31/11	1.95%	3.42%	1,286	13,618
YTD Return			2.26%	1.93%

The graph below shows the spread between 30-year and 2-year US Treasuries since 2006. Short-term rates are being kept artificially low. However, the increasing difference in the rates is signaling that higher interest rates are likely ahead.



Investment Outlook

- Like Greece, the Egypt story will be off of page one soon. The only reason to hit the panic button is if the unrest spreads to other countries and leadership transitions are not peaceful and their new leaders do not embrace private markets.
- There are bargains to be found in tax-free bonds if you are patient and shop wisely. While there will be defaults, it does not appear to be a problem of epic proportions. States defaulting or declaring bankruptcy would throw the entire market into chaos. Refinancing is in the cards for the states.

Insightful Thoughts of Others

I think it's important for people to understand the ideas of scarcity and decision-making in everyday life so that they won't be ripped off by politicians. Politicians exploit economic illiteracy.

- Dr. Walter Williams, economics professor George Mason Univ.

The first lesson of economics is scarcity: there is never enough of anything to fully satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics.

- Dr. Thomas Sowell, economist

Poor people cannot rely on the government to come to help you in times of need. You have to get your education. Then nobody can control your destiny.

- Charles Barkley, former NBA star

Find out just what any people will quietly submit to and you have the exact measure of the injustice and wrong which will be imposed on them.

- Fredrick Douglass



A Few More Things

- The Department of Education is one of America's poorest investments as evidenced by American students not scoring as well against students from around the world on standardized tests. This despite funding that is much greater than what students receive in most nations that score higher than in the US. Some school districts are considering requiring students to own iPads. Technology cannot solve all problems. The evidence that our educational system is not working is clearly obvious when young people cannot even secure entry level jobs because they lack basic skills, especially the three R's. Our military rejection rate of young people is alarming. How about fewer computers and more chalk, pencil, and paper in grades K to 8 so that students learn fundamentals and will be better prepared for life.
- Two excellent concise book reads you may wish to consider. *Blur: How to Know What's True in the Age of Information Overload* by Bill Kovich and Tom Rosenstiel offers insight into the rapidly changing media world and provides six key questions one should ask in order to better evaluate the content that is being presented. *The Lost Art of Reading: Why Books Matter in a Distracted Time* by David Ulin is an essay on why unplugging from technology and focusing on reading a book with words on paper should matter to us. {Humor alert. So download to your iPad or Kindle now.}
- The Super Bowl stock market indicator foretells that if an original NFL or an NFC team wins the game, the stock market will rise. There have been 44 Super Bowls played and this indicator has been correct 35 times for a success rate of 80% (the success rate is 70% over the last ten Super Bowls). This year the NFC Packers play the AFC Steelers, both are original NFL franchises. Seems like the odds favor an up market in 2011, but don't bet the farm on it.
- In these modern times, Congress has inflicted on us a headache and wallet-ache in the form of a debt burden that even those born this year will likely be unable to pay-off during their life time. Let it be said that violence perpetuated on or by members of our Congress does absolutely nothing to further the American cause. Interestingly, American history includes some infamous dust-ups involving fists, canes, duels, or swords by those serving in Congress. The aggressor in almost every one of these incidents also ended up on the losing side of the issue. The card includes:
 - Thomas Hart Benton v. Henry Foote
 - Laurence Keitt v. Galusha Grow
 - Albert Rust v. Horace Greeley
 - John Breckenridge v. Francis Cutting
 - Charles Sumner v. Preston Brooks
 - Ben Tillman v. John McLaurin
 - William Stanberry v. Gov. Sam Houston
 - Roger Griswold v. Matthew Lyon
 - Lovell Rousseau v. Josiah Grinnell

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