



## Market Commentary as of April 13, 2009

**Overview** - After a difficult first two months to start the year, the market rallied, creating the largest 23 day advance since 1933. Volatility is still high and recovery is expected to be a slow process so we remain cautiously optimistic and are not comfortable in saying the worst is behind us. The government has spent nearly \$4 trillion attempting to inflate the economy even going as far as buying our own treasury debt to ensure that investors across the globe continue to view U.S. Treasuries as the be-all end-all of risk free assets. Housing starts have risen moderately for three months and building permits have also increased from the previous month, both considered leading indicators (economic factors that change before the economy starts to follow a particular pattern or trend). New home sales, a direct contribution to GDP, rose in February and January sales were revised upward slightly. While markets are still very volatile – asset classes have begun to move independently from each other which will allow a diversified portfolio to do its part in minimizing the risk of your investments as much as possible.

**Domestic** - The S&P 500 returned -11.01% for the first quarter 2009. We continue to overweight growth and large cap in our domestic equity allocations for all portfolios as growth stocks tend to outperform value during a recessionary environment and small caps tend to underperform large caps when credit is scarce. Growth outperformed value by 12.46% for the first quarter 2009 (Russell 3000 Growth vs Value), and large caps outperformed small caps by 4.50% (Russell 1000 vs 2000). Our outlook for domestic equities has not changed; valuations are still near historical lows, making US Equities attractive.

**Developed & Emerging Foreign Markets** - Foreign equity markets were more affected than domestic markets last year and provided almost no diversification benefits. While international developed markets (MSCI EAFE) had similar first quarter numbers to the S&P 500 (-13.94% vs -11.01%), emerging markets (MSCI EM) were positive, returning 0.95%. We kept our emerging market allocation static while we trimmed our allocation to international developed and domestic markets in late December to create a high yield allocation. The amount returned is not as important as the diversification added. These markets were almost completely correlated with each other last year and a change of course is a good sign suggesting the return to historical correlations.

**Fixed Income** – The recent government actions, such as the Fed’s open market Treasury purchases are intended to lower borrowing costs for consumers and ultimately push investors into higher yielding fixed income products which will help to restore credit conditions and ultimately stimulate a market recovery. Even though investment grade corporate debt under-performed so far in 2009 (- 1.06% iBoxx), it should benefit from the increase in liquidity created by the government programs. We have already begun to see an increase in the rate of new issues, which is a positive sign that liquidity is re-entering the marketplace. Our shift into high yield debt continues to benefit our portfolios since high yield bonds are trading at large discounts (65% of par value) and the upside potential will be in line with the returns of equities. Unlike with equities, we are essentially be “paid to wait” for a market recovery by the income generated by the Wells Fargo High Income fund which has returned 5.76% for the first quarter. As the U.S. continues to print dollars in an attempt to solve the economic crisis, the dollar may continue to weaken as fears over inflation set in. Our portfolios have an allocation to international debt that is designed to act as a hedge against a declining dollar should inflation become a problem in the U.S.

**Real Estate** –The battered real estate market has seen some signs of stabilization in the recent months but with a large amount of debt coming due in the next three years, it is widely expected that that the delinquency rate of commercial real-estate properties will significantly increase. If TALF, which makes low-cost loans available to investors, is made available to the commercial real estate market, it may help to create necessary liquidity in the frozen credit market. It is crucial for the credit markets to free up since even healthy properties are having difficulty refinancing. The current REIT dividend spread over the 10-Year Treasury Note was 6.98% (NAREIT All REIT Index) as of the end of March, which is well above the long-term average of approximately 1%. Historically, REITs have been extremely profitable and we continue to hold a small allocation due to their attractive yields and traditionally low correlation to stock and bond markets.

**Alternative Investments** - While natural resources were hit particularly hard in 2008, certain components in the sector saw positive price momentum in the first quarter of 2009. Oil, which dropped to below \$40 in December is now trading in the low fifties and there has been an increase in value of precious and industrial metals, in particular gold and silver. While 2009 may prove difficult for the natural resources sector due to overall weakness in the world economies, the long-term outlook continues to be favorable due to global population growth. The allocation should also serve as a hedge in the event that inflation becomes an issue in the U.S. Our managed futures position, the Rydex Managed Futures Strategy (RYMFX), was down -3.71% for the first quarter in 2009. The fund capitalizes on trends (either positive or negative) in the commodities markets and they have been virtually trendless. We expect positive performance similar to the second half of last year once a trend is established. It has continued to play its part as an uncorrelated addition to our portfolios.

**Conclusion** - So far, 2009 has proven to be no less of a roller coaster ride than the second half of 2008. Investing without a strict investment policy may have caused some investors to buy high and sell low over the past 18 months. However, LTAM implements a strict investment process in order to protect and grow your assets as safely as possible. We view the recent market rally as a positive sign going forward but at the same time continue to have a cautiously optimistic outlook on the economy as it is unclear whether recent market events are the start of a bull market or another bear market rally. We have successively hedged our traditional allocations with tactical changes such as alternative investments which have effectively stabilized our portfolios during this period of uncertainty and we will continue monitor global markets for signs on when to return to normalized allocations.

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