Investment & Economic Update

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The Economy

Tough Times

It has been a long time since we have seen economic times as tough as we have today. Our policy makers clearly see the pain and have moved forward with a massive stimulus plan in an effort to rescue the badly beaten down economy. The nation's gross domestic product declined by 6.3% in the last quarter of 2008, which was the worst report since 1982. US joblessness has also reached disturbingly high levels, with an unemployment rate last reported at 8.5% through March of 2009 — the worst unemployment rate since 1983. While rescue efforts are underway, the various stimulus plans will take time to work their way through the system before the total impact will be seen. There are growing signs of optimism in recent weeks including better than expected housing starts and improved retail sales. While the US economy struggles, we are not alone. Due to ever-increasing globalization of business and trade, the rest of the world is also experiencing painful declines in output. With slowing demand, there has been a softening affect on inflation. The Consumer Price Index is up only .2% over the last 12 months.

The Stock Market

The Painful Downside of 2008 Continued in 2009

The first quarter of 2009 marked another negative return for equity investors, with the S&P 500 declining 11% for 3 months. Just as economic activity has become more synchronized, most foreign stock market indices moved similarly to US markets and posted double-digit declines in the first three months of 2009. The first quarter was marked by sharp declines in January and February, followed by a welcome rally in the month of March. It was two steps backward and then one forward, with the March returns for the S&P 500 showing a positive 8.7%, but not nearly enough of a gain to erase the severe declines of the first two months.

The obvious question on investors' minds is when will the bear market end? It is not known whether the sell off in stock prices adequately discounts the crisis in the financial system, housing and mortgage problems and, in general, a society with heavy debt loads. What we do know is that measures are in place to help stabilize market and economy. We also know that in all past downturns, a recovery in business profits and stock prices eventually followed. While the timing is so uncertain, investors can benefit from dollar cost averaging while stock prices are low and avoiding emotional sell decisions. By waiting until things get better, investors often miss strong returns when the market rebounds. The fact is, the stock market tends to turn up well before an economic recovery is evident.

The Bond Market

Liquidity Improvements

In addition to allowing the Fed Funds rate to stay at near zero, the Fed has injected huge levels of liquidity into the financial system. Leading to easier flow of money supply, the Fed is buying billions of dollars of Treasury debt and mortgage-backed securities. The new money in the system has improved the function of the credit markets. Yields on US Treasury debt have fallen to levels not seen in 50 years. Money market yields are barely positive and the 10-year Treasury yields only 2.7%. Investors' preference for quality continues to be evident as the spreads (interest rate differences) between US Government bonds and corporate bonds are very wide. There remains reason for caution toward investing in higher yield bonds as default rates continue to run at above average levels. While near term inflation appears subdued, there is a long term concern that all of the easing will lead to much higher inflation.

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Indexes		YTD
Stock Indexes		
Dow Jones	7,609	-13.30%*
S&P 500	798	-11.00%
NASDAQ	1,529	-2.80%
* Price Return		
Bond Indexes		
10 Year Treasury	2.71%	-2.74%
3 Month Treasury	0.16%	+0.09%
US Corp. High Yield	18.12%	5.98%

Prime Rate	3.25%
LIBOR Rate (3 mos.)	1.23%
Unemployment Rate (Mar '09)	8.50%
15 Year Mortgage Rate	4.65%
30 Year Mortgage Rate	4.89%
CPI (12 Months Ending 2/28/09)	+0.20%
GDP (4th Quarter 2008)	-6.30%
Oil Price (Price/Barrel)	$49.66
Gold (oz.)	$916.50

Treasury Yields	
3 Month	0.16%
6 Month	0.37%
2 Year	0.83%
5 Year	1.65%
10 Year	2.71%
30 Year	3.58%

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		March 31, 2009			Calendar Year Ended					5 Year Average Annual Return
		Last 1 Month	Last 3 Months	Calendar Year-to-Date	2008	2007	2006	2005	2004	
Large Cap	Dodge & Cox Stock Fund	8.8%	-14.9%	-14.9%	-43.3%	0.1%	18.5%	9.4%	19.2%	-2.6%
	T. Rowe Price Equity Income	9.4%	-15.4%	-15.4%	-35.8%	3.3%	19.1%	4.3%	15.1%	-1.1%
	Selected American Shares	10.8%	-12.8%	-12.8%	-39.4%	4.8%	15.2%	9.9%	12.0%	-2.1%
	American Century Value Inv.	8.1%	-13.4%	-13.4%	-26.7%	-5.2%	18.5%	5.0%	14.4%	-0.2%
	FMI Large Cap Fund	10.3%	-8.5%	-8.5%	-26.9%	4.1%	16.7%	9.1%	17.5%	2.6%
	Vanguard Index 500	8.8%	-11.0%	-11.0%	-37.0%	5.4%	15.6%	4.8%	10.7%	-2.3%
	Schwab Instl Select S&P 500	8.8%	-11.0%	-11.0%	-36.9%	5.5%	15.8%	4.9%	10.7%	-2.2%
	Janus Growth & Income	8.6%	-2.7%	-2.7%	-42.5%	8.7%	7.8%	12.5%	11.9%	-3.2%
	SIT Large-Cap Growth	7.3%	-4.7%	-4.7%	-34.1%	14.1%	9.5%	9.6%	12.8%	0.4%
	Harbor Capital Appreciation	7.2%	-0.6%	-0.6%	-37.1%	12.3%	2.3%	14.0%	9.3%	-2.1%
	Growth Fund of America	8.6%	-4.0%	-4.0%	-39.1%	11.0%	10.9%	14.2%	12.0%	-0.8%
Mid Cap	Perkins Mid Cap Value Investor	7.7%	-7.6%	-7.6%	-27.3%	7.4%	15.3%	10.4%	18.4%	3.3%
	Dreyfus Mid Cap Index	9.1%	-8.6%	-8.6%	-36.5%	7.6%	9.9%	12.1%	15.9%	-0.5%
	Vanguard Mid Cap Index	8.9%	-8.5%	-8.5%	-41.8%	6.0%	13.6%	13.9%	20.4%	-0.8%
	Columbia Acorn Fund	8.0%	-9.2%	-9.2%	-38.6%	7.7%	14.5%	13.1%	21.5%	0.8%
	T. Rowe Price Mid-Cap Growth	10.2%	-1.1%	-1.1%	-39.7%	17.7%	6.8%	14.8%	18.4%	0.6%
	JP Morgan Diversified Mid Cap Gr	11.2%	-1.1%	-1.1%	-43.8%	17.1%	11.3%	10.9%	12.9%	-1.7%
	Eagle Mid Cap Stock	7.4%	-8.2%	-8.2%	-37.6%	13.4%	13.2%	9.3%	17.5%	0.6%
Small Cap	Perkins Small-Cap Value	8.9%	-11.0%	-11.0%	-21.6%	3.2%	12.6%	9.1%	13.8%	2.5%
	Heartland Value Plus	5.2%	-11.4%	-11.4%	-17.9%	4.7%	13.6%	1.3%	17.0%	3.0%
	Royce Total Return	8.3%	-12.0%	-12.0%	-31.2%	2.4%	14.5%	8.2%	17.5%	0.5%
	Vanguard Small Cap Index	9.5%	-13.5%	-13.5%	-36.1%	1.2%	15.7%	7.4%	19.9%	-0.7%
	Keeley Small Cap Value	7.4%	-19.6%	-19.6%	-40.2%	7.2%	19.6%	16.1%	32.9%	3.4%
	T. Rowe Price Small-Cap Stock	9.4%	-9.5%	-9.5%	-33.4%	-1.8%	12.8%	8.4%	18.8%	-1.0%
	UMB Scout Small Cap	4.3%	-10.5%	-10.5%	-40.2%	13.3%	12.1%	5.6%	24.7%	0.0%
Inter national	Oppenheimer Global A	8.7%	-8.8%	-8.8%	-41.0%	6.0%	17.4%	13.8%	18.7%	-0.2%
	UMB Scout International	5.9%	-11.3%	-11.3%	-38.1%	17.8%	21.5%	19.6%	18.0%	4.6%
	Euro Pacific Fund - American Funds	7.3%	-8.0%	-8.0%	-40.5%	19.0%	21.9%	21.1%	19.7%	4.6%
	Harbor International	7.3%	-15.1%	-15.1%	-42.7%	21.8%	32.7%	20.8%	18.0%	5.7%

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