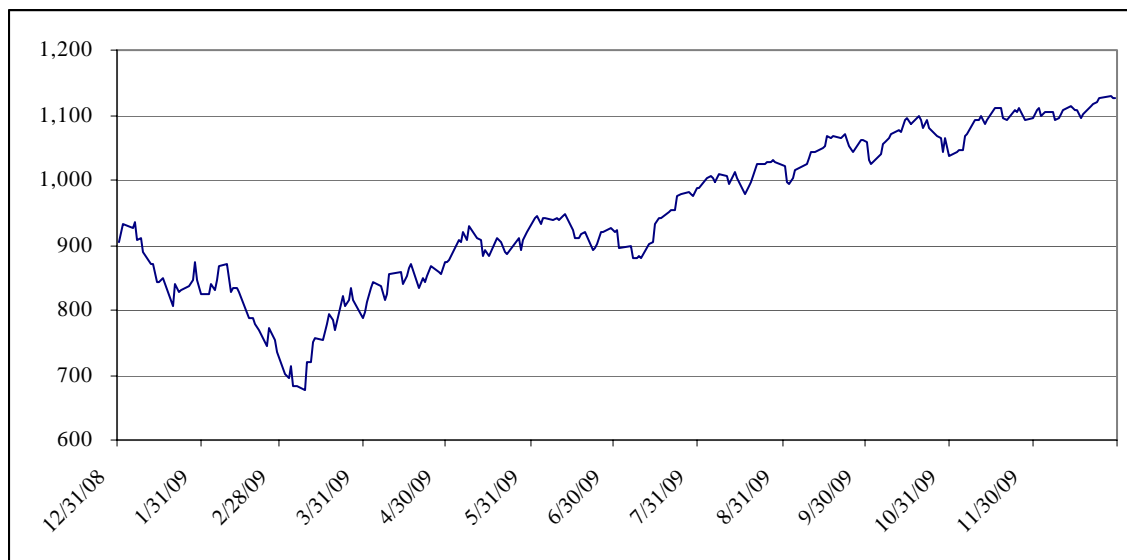


## A Year of Recovery

The accompanying chart of the Standard and Poor's 500 Index pretty much sums up the year just passed for investors. After a harrowing start that concluded in a major market bottom in March, stock prices marched steadily higher for the balance of the year. Even with a minor blip in mid-summer, we ended 2009 with a net gain of 23.5%. Pity that the journey to the plus side could not have been a bit more even. The early year plunge in stock prices and a continuation of the decline triggered by the collapse of Lehman Brothers in October of 2008, sent many investors to the exits. A tip of the hat to those who had the fortitude to ride out what we believe to be the worst of the financial storm. Perhaps there is something to this notion of long-term investing.



It is interesting to note that the rally appears to be more from an exhaustion of sellers, and not from any specific event that turned the market. Rather, the upturn stemmed from a series of events in the form of additional bits of data in the summer months and into the fall indicating that the economy was recovering. We will be the first to admit it is refreshing to see that the crocus bulbs we alluded to in our April 1<sup>st</sup> newsletter, were real. Thanks in no small part to what can only be termed massive government intervention through a series of stimulus and tax incentive programs, the economy has stabilized and is finally growing again. The consensus view is that growth coming out of this recession will be slower than those in the past, and some have even termed it a jobless recovery. The greatest area of concern is the high unemployment rate, currently at an even 10.0%, despite a slight downtick reported in November. Further, many of the government backed stimulus programs have either already expired, or will in the coming months, and it remains to be seen what this effect will on the fledgling recovery.

We have often noted that corrections can be a good thing for the financial markets. The dramatic rise off the March 2009 low may well bring about a round of profit taking. Should that happen, just as a bell did not ring signaling the market low, we suspect that one will not ring preceding any correction in stock prices. A modest pullback will allow investors who missed the rally to get involved in the market, and will allow cash balances to be deployed in areas of promise. Throughout 2009, the ratio of money flowing into bond funds was more than 10 times that into equity funds. It is our view that rising interest rates in 2010 could potentially reverse this flow of funds, thus providing a further catalyst to stock prices. Fourth quarter and year-end earnings reports will be coming out soon, as well as data indicating the strength and breadth of the economic recovery. We will be looking closely at all of the data and indicators, and will strive to position portfolios to benefit from trends in the market.

Overall, as we enter the New Year, there is reason for optimism that 2010 will be a good year for stocks. The global economy is also rebounding, and emerging nations such as Brazil, Russia, India and China (The BRIC's) are users of goods and services provided by many domestic companies. Despite what could be a sluggish recovery here at home, the demand from abroad will provide a favorable backdrop for companies that have large components of sales in international markets. Further, inventories are lean, and many companies have cut costs to the point where any upturn in sales will generate strong earnings, which at the end of day is what drives stock prices. We have long been on the theme of investing in, (and will continue to do so), these international companies as well as those that have the ability to steadily increase dividends. As we did a year ago, we will once again "stick to the basics" and be there for the long term.

**Year End Scoreboard 2009**

Dow Jones: +18.8%  
S&P 500: +23.5%  
Nasdaq: +43.9%

Bill, Andrew, Bob and Chris wish each of you and your family a healthy and prosperous new year, and we look forward to speaking with each of you in the near future.



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