Prepared Comments from 10/15/2009 Conference Call

My last conference call was on July 15th. US stocks have since risen 17%. The 3rd quarter was the best for stocks in over a decade. While the country is still losing jobs monthly, the pace has slowed, and the economy is expected to be stronger in 6 months, stronger still in 12 months, and so on. As a result, investors who fled stocks and bonds last year and earlier this year have begun to ask themselves what to do with the mountains of cash they are sitting on.

I am often asked, "Is it safe to get back into the market?" The answer is no, it is never safe. Stocks, and even bonds, trade in markets that go both up and down, and no one, I repeat no one, KNOWS which way it is going. The best that we can do is identify the direction we feel it is most likely to go (based on the factors we consider), and then make a decision on how to proceed.

The economic news today is far more stable than it was eight months ago. We have indeed backed away from the economic precipice. There are still dangers on all sides of us, but that is the landscape.

Last week I prepared the quarterly Market Review and Outlook, which is posted on our website www.mallardadvisors.com, under **Client Resources** and then under **Newsletters and Articles**.

The Economy

There are factors to worry about, and others to celebrate:

Economic Highlights

- Residential real estate rising off an apparent bottom
- Majority of stimulus will arrive in 2010
- Inventories are very low
- Fed is expected to hold Fed rates at current low for 9 months or more
- Inflation pressures low due to excess capacity (low demand) and high unemployment
- Housing lead to growth—majority of country housing has never been more affordable
- GDP growth is improving, leading indicators are improving, earnings growth is improving

Economic Dangers

- Banks still aren't lending much
- Housing inventories remain high
- Mortgage delinquencies are high (6% prime mortgages, 25% of subprime)
- IMF expects losses in US to continue—only 60% have been realized
- Vast majority of states are in the red
- Recovery is expected to be muted (higher savings, less leveraging)
- Future economic growth is likely to be restrained, due to high unemployment, and a much more careful consumer and lending environment
- Little evidence of fiscal responsibility at the federal level

Bonds and Stocks

INVESTMENTS

Flow of funds

- Massive move by investors from money markets to bonds this year (11 times as much as moving into stocks)

Bonds

- Real risk of loss in Treasuries, as yields rise over time (flight from safety, and unwinding of the Fed's support)
- Government and mortgage backed bonds—overpriced, corporate and emerging markets are at best fairly priced. TIPS appear overpriced
- High Yield bonds have already had their day in the sun—cut these back!

Stocks

- Earnings—full recovery by 2011 expected (from 2007 peak)
- Cash on Sidelines—Still about $3.5 trillion, from peak near $4 trillion
- IPOs are showing signs of life—indicating that firms have cash, and banks are sometimes willing
- Sectors—Tech, healthcare, staples look good, financials, telecom, utilities look weaker
- Valuations—appear cheap in Canada, US, Europe, Japan, Asia/Pacific—appear expensive India and China
- US economic growth is expected to lead UK, Europe, Japan. China, India, Asia ex-Japan look even stronger. All emerging markets are expected to see GDP growth in 2010.

Closing Thoughts

So where are we? For those who have kept to their target levels of stocks throughout—nice job. You are likely down a bit over the past two years, but have REALLY narrowed the gap over the past eight months. For those of you who bumped your stock levels in the past year (I boosted the stocks in my IRA to 95% late last October), I recommend that you move back to your 'normal' levels. For those of you who cut back your stock levels over the past year or more, I recommend that you consider adopting a program to build them back up, perhaps with a monthly or quarterly increase that brings you towards your target level within a year or two.