Market Review and Outlook—March 2, 2012

What Just Happened? The table below shows red-hot gains from stocks in the past three months. Did the world's problems get solved without us knowing? No—the world still has a host of problems. However investor behavior results in stock markets **leading** events—stocks fall before an economy slows, and stocks rise before an economy recovers. Stocks rise when the future looks brighter, even when the present remains subdued. In the past few months, the future has begun looking brighter.

Europe is the main area of improved future. While the present remains grim, the entire European community is working together on a comprehensive approach to deal with their fiscal crisis. As a result, while the European region is expected to fall into a recession this year, this is a better future than what was feared last autumn.

The US' future has also been brightening. The unemployment level is falling, as private employers are hiring two hundred thousand more Americans every month than federal/state/local governments are laying off. They are doing this, as consumers are becoming less fearful. This can become a virtuous cycle, and while that is far from certain, it is possible.

Investment Landscape—Despite the most recent results, stocks appear to be undervalued. While the 3 month and 3 year figures below are astounding, the 5- and even 10-year results are low due to today's low prices for stocks (which are the result of investor fear, built up in 2008 and 2009, and which has been slow to dissipate). More critically, bonds appear to be overpriced, again due to investor fear. This has created a role-reversal, where typically safer bonds are riskier and vice versa. As an example, it is likely that government bonds will be more subject to losses in the coming years than high-yield bonds.

So Now What?—The falling consumer and investor fear caused us in early January to lower our Firewall, and so we are rebalancing client portfolios 'normally.' We continue to favor a global stock approach. Within bonds, we favor opportunity bonds, those which are more credit sensitive than high quality bonds. We feel that opportunity bonds offer higher yields and trade at lower prices than high quality, where high prices subject investors to a real risk of capital losses.

We have earned a years' worth of gains in the first two months of 2012, and yet we are hopeful that further gains remain. While there are many challenges ahead of us, stocks represent shares of companies, and companies are very well positioned to benefit in the coming quarters. Furthermore, regardless of which political party you support, one way or another we will know our next President and which party controls the House and the Senate by the end of the year, and everyone feels better when uncertainty is reduced.

Category	**3 Months**	**Past Year**	**3-Year Avg**	**5 Year Avg**	**10-Yr Avg**
Fidelity Cash Reserves	+0.01%	+0.02%	+0.15%	+1.55%	+1.94%
Intermediate Term Bond	+3.17%	+6.93%	+10.37%	+5.72%	+5.26%
Intermediate Muni Bond	+3.93%	+10.29%	+7.19%	+4.76%	+4.39%
Large-Cap Blend Stock	+10.04%	+2.61%	+24.22%	+0.84%	+3.90%
Mid-Cap Blend	+10.27%	+0.39%	+28.59%	+1.86%	+6.97%
Small-Cap Blend	+10.17%	+0.12%	+30.03%	+1.75%	+7.11%
Foreign Large Blend Stock	+9.20%	-7.41%	+19.84%	-2.56%	+5.64%
Natural Resources	+5.85%	-9.49%	+24.68%	+4.06%	+13.04%
Real Estate	+10.21%	+5.40%	+41.43%	-2.16%	+9.52%
Technology	+12.78%	+0.05%	+30.43%	+5.55%	+5.53%
Moderate Allocation	+7.24%	+2.95%	+18.33%	+2.56%	+4.82%

The data in this table comes from Morningstar, and is as of February 29, 2012