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First Quarter Market Update

Dear Client,

The stock market, like our spring weather, began heating up early this year. Building on a rally that started last October, U.S. stocks moved sharply higher during the first quarter.

The Dow Jones Industrial Average[1] enjoyed its best first quarter since 1998 (up 8.1%), the S&P 500 Index[1] rose 12.0%, and many international stock markets also rallied. Within the fixed income markets, interest rates rose, with the yield on the 10-year Treasury rising from 1.97% to 2.23%.

The question now is whether the market will hold onto its recent gains, or whether we will see a repeat of the last two years, when the market wilted over the summer and early fall. As I survey the economic and financial landscape, I find several reasons to believe the economy is gaining some real momentum, including:

- **Healthy Employment Gains.** Private sector employers have been averaging more than 225,000 new jobs a month over the past three months, while initial claims for unemployment benefits have fallen to four-year lows*.
- **Consumer Spending Growth.** Despite higher gasoline prices, consumers have continued to open up their wallets in recent months (although some of that spending reflects higher gasoline prices). Pent up demand for new cars has also boosted the economy, as manufacturers hire more workers to keep pace.
- **Signs of Recovery in Housing**. Sales of existing homes during the first two months of 2012 were the highest since the first two months of 2007. New permits for home construction in February were at their highest levels since October 2008 and actual new home construction was 35% higher than in February 2011*. With rental rates rising and interest rates still near historic lows, homes are extremely affordable in many markets.

As outlined above, the U.S. economy appears to be gaining momentum, fears of a meltdown in the euro zone have dissipated, and stock market valuations are at reasonable levels. However, we don't know what impact a recession in Europe will have on our economy and gasoline prices are above $4 a gallon in some parts of the U.S. The prospect of higher taxes and drastic government spending cuts in 2013, along with a Presidential election, only add to the uncertainty.

Over the short term, I wouldn't be surprised to see some profit taking in the weeks or months ahead. If you need resources from your portfolio in the next 3 to 6 months, you may want to consider raising those funds now. For long-term investors, however, I believe there has been a shift in some investors' mindsets. Rather than worrying about the potential for some new economic or financial disasters, many are now focusing on economic and market fundamentals. That, in my view, is a positive development.

Thank you for trusting us with your wealth management plan. If you have any questions about your portfolio, please call my office anytime.

Sincerely,

Mike Ovshak, CFP®

[1] All indices are unmanaged and investors cannot invest directly into an index. Past performance is not indicative of future results. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. Diversification does not assure a profit or protect against a loss in declining markets.

* Source: Brad McMillan, Chief Investment Officer at Commonwealth Financial Network