

# Private Wealth MANAGEMENT



## Recovery?

To say 2009 was memorable is an understatement. To future historians and economists it will be the year to which all upcoming bear and bull markets will be compared. For investors, recovery was the word for 2009. Domestically, stocks returned around 20% while some of those in the emerging markets returned more than 60%<sup>[1]</sup>. But the party didn't stop there, investment-grade and high-yield bonds, along with most commodities rallied sharply since the start of the year, and the US dollar continued on its secular decline. The appetite for risk had gradually increased.

And as for the economy?—that's a different story. With the unemployment rate breaching the psychologically important level of 10% for the first time in a generation, most Americans, ourselves included, had difficulty believing that *true* recovery was here to stay. Sure most of the bleeding had stopped, but the economy was still on life support—huge government stimulus, ultra low interest rates, and an expansion of the money supply the likes of which we have never before witnessed.

Unfortunately, many of the causes of the financial crisis—artificially low interest rates, over leveraged balance sheets, and a cash-strapped consumer—still remain with us today. Until and unless these problems are dealt with, rather than being swept under the proverbial rug, we are only delaying the inevitable.

We know that opportunities abound in all investment environments. What changes from time to time, is the number and the attractiveness of those opportunities. At the start of year, we felt like kids in a candy store—oil was selling at less than \$40 a barrel, emerging market stocks were selling for ultra low PE ratios, and high-yield bonds were priced for Armageddon. But now, the low hanging fruit has been picked.

We believe that the early part 2010 will continue to show signs of improvement for the economy and financial markets. However, the latter part of the year may have the economy and markets running out of gas. If the labor

market improves and consumer prices start to rise, the Federal Reserve will be forced to raise interest rates which may have a negative effect on risk assets and could lead to a sharp correction in several global markets.

As for current opportunities, we like emerging markets (mostly debt), soft commodities (think agriculture), and believe it or not, even some distressed (but income producing) real estate properties selling at bargain prices. We don't like long term US treasuries and will continue to short the long end of the yield curve.

All of us at Private Wealth Management are excited about the New Year and the opportunities it may bring. We are looking forward to sitting down with you soon during your comprehensive annual review so we develop the most appropriate strategy for you and your family going forward.

Respectfully,

Vijay J. Marolia, MBA  
Chief Investment Officer

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<sup>[1]</sup> Barrons