



Gleanings

4 Lanes Blocked

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We've been making the 18 mile Route 264 run to and from Norfolk since 1981 and have only seen it happen once before. Although, we've certainly hit slow-ups that make you ask the question, "Should I get off ?", this time there was actually a sign that read "4 Lanes Blocked Ahead."

So...complacency and smoothly flowing traffic aside, there was no question that what one should do was to, yes, immediately get off at the next exit.

You know where this is going.....

In the last 50 years we have not once before seen *all* the economy's lanes for growth blocked. Personal incomes, household net worth and bank credit are contracting at unprecedented rates. With global GDP set for its first contraction since the 1930's, world trade is falling and is anticipated to continue to contract through 2009. Really, this is not a good time to

Market Returns through 03/31/09

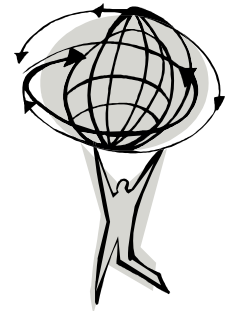
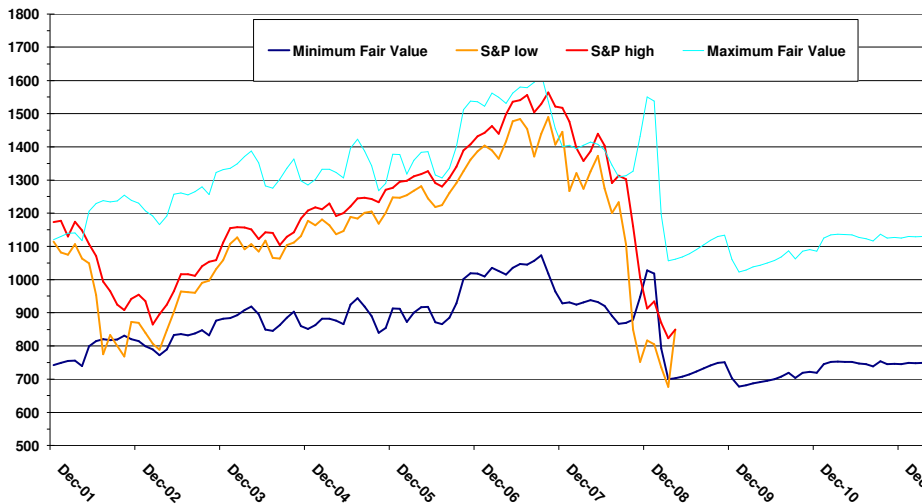
Index	Jan	Feb	Mar	YTD
S&P 500	-8.4	-10.6	8.7	-11.0%
ML 1-10 yr Gov't/Corp	-.4	-.6	1.0	.0%
EAFE (Developed Mkts)	-9.8	-10.3	6.3	-13.9%
Emerging Markets	-6.4	-5.6	14.4	1.0%

just see how things go.

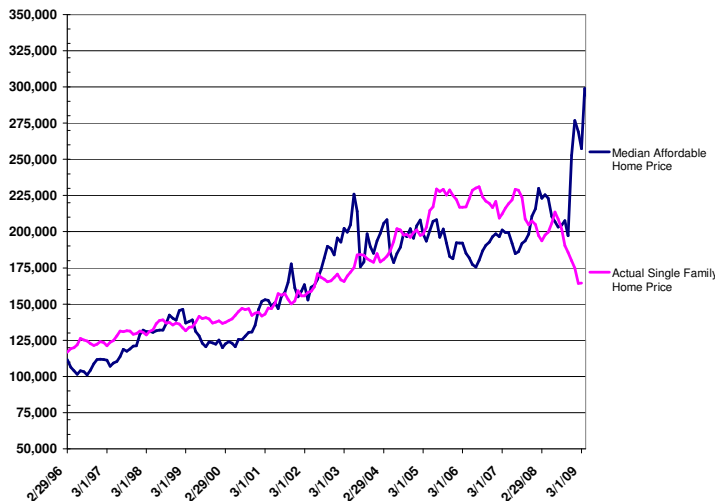
The good news is that the signs are posted for us to observe. There is not any compelling reason to agonize about what to do. As your investment returns testify, we have been pulling off the stock highway and will be mainly plugging along on the cash and bond by-ways until the obstacles get cleared. Interestingly, the closest historical experience to our current economic circumstances was in 2001 when trade, household net worth and credit were all similarly contracting. Global leading indicators did turn up in January of '02. The fundamentals improved by

summer of 2002 and the S&P made its final low in October of that year. Certainly it's true that the market looks ahead. In this case however, it is pure speculation to anticipate a bottom for earnings this year. At the moment we are in the midst of a rally that has retraced half of the 50% drop in the market. Indications are that investor sentiment, as measured by traditional indicators, has rebounded to significantly more bullish measures. We don't believe that we have yet seen the ultimate lows in either the economy or the stock market. We are selling into this rally and recommend that as a constructive strategy as we enter earnings season.

The S&P 500's price is now at a substantial premium to typical bear market valuations. A convincing bottom should come at a level much closer to 700 than 800 on the S&P. We would be buyers at that level or should the rate of decline in leading indicators *and* the aforementioned fundamentals begin to abate.



On the bright side... We do see the ingredients for such an improvement falling into place. The drop in single family home prices, combined with lower mortgage rates have made the median home affordable to the median household again. (The blue line is the price that the median household income can afford at the current mortgage rate. The purple line is the median price of a single family home.)



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Stabilizing home prices (and with that consumer net worth) should follow affordability. There is a substantial lag however, in transmitting that theoretical improvement into an observable reality as we are still dealing with \$3 trillion of bad assets that were originated when home prices were at bubble levels. Until these get written down or get taken off the banks' balance sheets, they will be in no position to commit to enough new lending to move prices.