

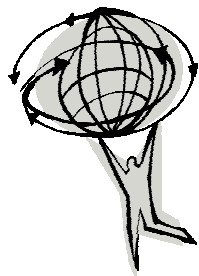
# Sandpiper Capital



## Gleanings

### “Hope Springs Eternal.”

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*“If greed and fear are the emotions that drive the markets, then perhaps when we’ve had enough of fear, greed cannot be far behind.”*

Along with the fresh blossoms and chirping songbirds and longer, prettier days, spring also brings a renewed optimism about ourselves, life’s potential, and in 2012, the potential for renewed economic growth as well.

This brightening outlook certainly may originate from a subjective sense that perhaps some of our fears may have been unfounded or at least less pressing than we thought. Or it may be that four years of incessant headlines (and investment letters) recounting the enormity of our financial challenges may well have cumulatively dulled our sense of dread. The long winter didn’t stop our daffodils from pushing up through the caked accumulation of last year’s perished growth and I’m sure I’m not the only one that expects to see some renewed signs of life in our economy. If greed and fear are the emotions that drive the markets, then perhaps when we’ve had enough of fear, greed cannot be far behind.

So, where are the economic daffodils? Let’s take a short stroll through the garden:

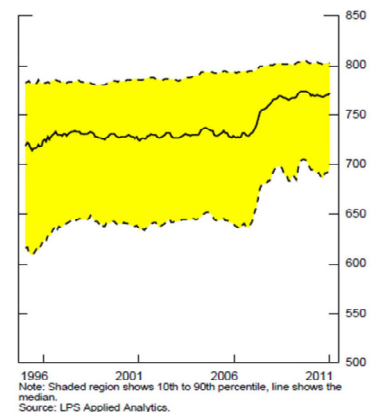
### Market Returns Annually and Through Five Years Ending 03/31/2012

Index	2009	2010	2011	5 Yrs
<b>S&amp;P 500</b>	26.5	15.1	2.1	<b>2.1%</b>
<b>ML 1-10 yr Gov’t/Corp</b>	5.7	6.0	5.9	<b>5.6%</b>
<b>EAFE (Dev Fgn Mkts)</b>	31.8	7.8	-12.2	<b>-3.5%</b>
<b>Emerging Markets</b>	78.4	19.0	-18.4	<b>4.8%</b>

### Housing

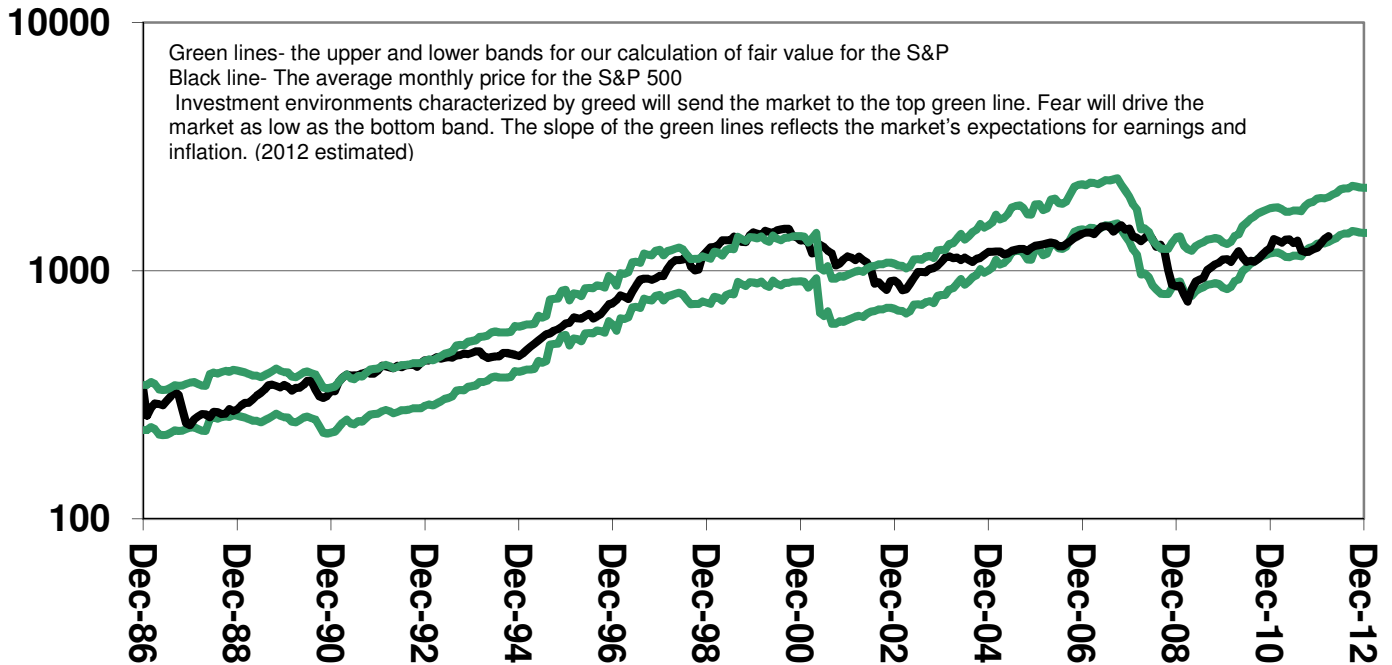
The failure of loan modification programs to gain any sponsorship by lenders has caused the Barack administration to move to a more radical but certainly more promising plan to encourage conversion of foreclosed homes to rental properties. As investment banks make wholesale purchases of foreclosed homes for resale to investors as rentals, banks’ balance sheets will improve and lending restrictions should ease. In addition, new tax incentives for banks that modify loan terms to reduce principal will motivate lenders to finally meet owners halfway. With the median household earning enough to afford a home that’s twice the current price of a median house, and with new households being formed faster than new houses are being built, it is only banker’s willingness to lend that is restraining the housing recovery.

Credit Scores on Newly Originated Mortgages



**Job Creation** Net new jobs in the four months ending February 2012 grew at the fastest pace since 2004, representing a broad-based recovery in hiring across most sectors of the economy. Hours worked and temporary employment rates both point to a sustained drop in the unemployment rate. A recent study by the N.Y. Federal Reserve looks for unemployment to drop to 6% by the end of 2014, raising incomes, spending and the overall economy. Too rosy? In this season of the year, is there such a thing?

**Stocks** The broad gap between the top and bottom values in the estimated intrinsic values for the S&P reflects the prevailing emotional environment, a little too esoteric a quantity for our formulas to model. The current mood does, however, seem to be shifting away from fear of a drop to the worry of being left behind. Actual earnings and inflation trends are projected to result in a fairly modest rise in the computed value of the market. The positive shift in sentiment, however, continues to move the market off the bottom. While volatility will continue, there's really not much downside risk.



I've again included a scatter chart (below) that illustrates actual investment returns and risk for all of Sandpiper's managed accounts, both open and closed, that have been here since our inception in October of 2008. These are compared to a theoretical "market line" that represents the spectrum of asset class returns, from low risk (money market), on the left bottom of the chart; to high risk (S&P 500) on the top right. You can see two things illustrated here. Sandpiper tends to choose portfolios that are made up of primarily low risk assets and those portfolios, on average, have earned returns in excess of what you'd expect, given the risk. Remember, past performance does not guarantee future results.

