

First Quarter 2010
Investment Commentary



Investment Insight
Fiduciary Focus



The record US stock market rebound of 2009 appeared to have reversed course early in the first quarter of 2010. However, mounting evidence of an economic recovery propelled US stock indexes to their fourth straight winning quarter. Much of the improvement in the economy was in the business sector, namely inventories and capital spending as high unemployment and housing continued to constrain consumers. Foreign stocks could not follow suite, primarily because the European debt crisis caused foreign currency translation losses for US investors. Despite concerns about rising interest rates, corporate bond prices appreciated through the quarter while Treasuries ended the quarter even. The average retirement plan asset allocation returned approximately 3.8% for the first quarter.

US Stocks Climb Higher

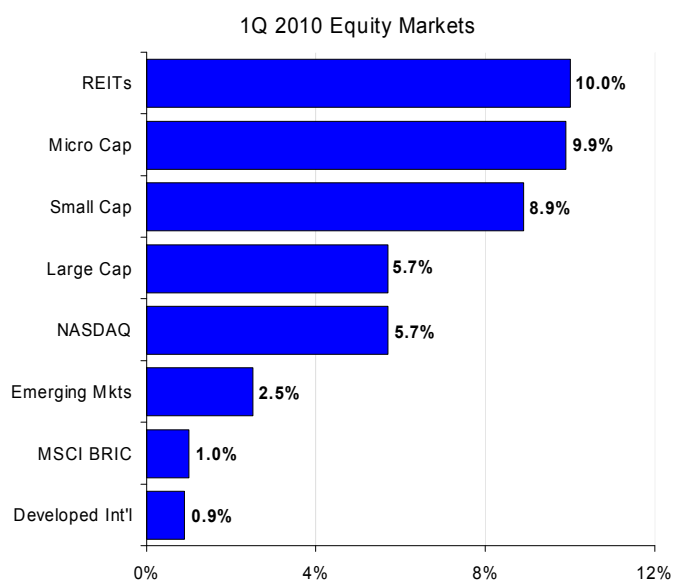
Market volatility and investor risk aversion dominated US equities early in the quarter as investors contemplated the negative implication of either lagging economic growth or the withdrawal of government stimulus as a result of strong economic growth. Improving economic and earnings fundamentals, healthy corporate balance sheets, and improved credit conditions shifted investor attention away from the issues of high unemployment, weak housing and government deficits sufficiently to close the quarter in a positive manner. The S&P 500 returned 5.4%, the best first quarter result in 12 years according to Standard & Poors. Small cap US stocks outperformed large cap stocks as investors followed market momentum and tried to get ahead of a perceived merger & acquisition wave. The Russell 2000 small cap index returned 8.85% while the Russell Microcap index finished the quarter ahead by 9.85%. Value outperformed growth throughout the market capitalization spectrum. The Russell 2000 Value index led domestic stock categories, adding 10% for the quarter. The best-performing stock sectors in the first quarter were those that typically respond best to economic growth. Within the S&P 500 index, 8 of the 10 sectors posted quarterly gains. The industrial sector posted the biggest gain, rising 12%. Other offensive sectors did well. Financials added 10.8% as big bank profits surged and the likelihood of significant financial regulation waned. Consumer Discretionary was up 10% while the more defensive sectors such as Consumer Staples (5%), Health Care (2.9%), and Utilities (-4.6%) lagged. Information Technology had an off quarter, adding 1.7%, as Google's decision to exit the Chinese market was a drag on sector results.

Investors' focus on yields drove REIT prices higher during the first quarter, outpacing stock market returns. REITs attracted investors forecasting a strong commercial real estate recovery as well as cross-over junk bond investors who prize higher yields. Commodities were a mixed bag this quarter as the strengthening dollar held back gold (1.5%). Oil advanced moderately (3.9%). Industrial metals (6.1%) rose the most, reflecting the quarter's economic optimism and the global inventory restocking cycle.

International Stocks Hit By Debt Crisis

The sovereign debt crises in Greece and the uncertainty regarding a European Union safety net had negative implications for foreign markets as concerns swept to other high debt euro countries. As a result, the euro fell significantly against other major currencies including the dollar.

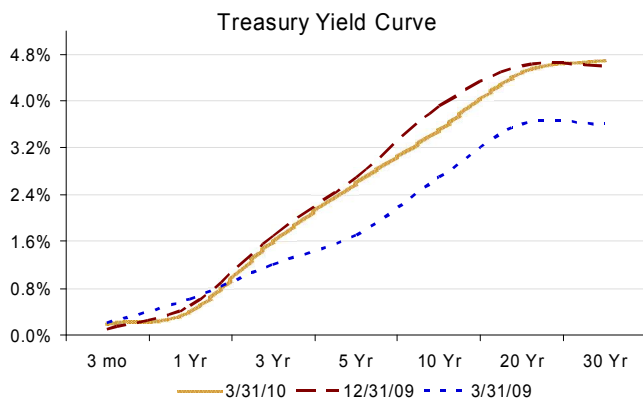
Though international returns far exceeded US returns in 2009, foreign markets lagged the US for the first quarter, due mainly to currency effects.



Total foreign markets returned 1.43% for the quarter according to the MSCI World ex US index. Local returns were about double this. According to MSCI, Japan led the quarter with an 8.2% return. Russia (6.8%) and India (4.9%) posted good results while Europe (-1.7%) and Brazil (-0.1%) lost money. Chinese stocks (-1.6%) fell following a decision by the Chinese authorities to raise the reserve requirement ratio for large depository institutions. Developed international market stocks, as represented by MSCI EAFE, lagged (.94%) because of their larger company orientation. Unlike the US, where value was in favor, growth stocks fared best outside the US. Though the economic outlook for emerging markets continued to look better than the developed markets, their returns were subject to some negative international investor sentiment and capital flows. As a result the MSCI Emerging Markets index added only 2.45% this quarter.

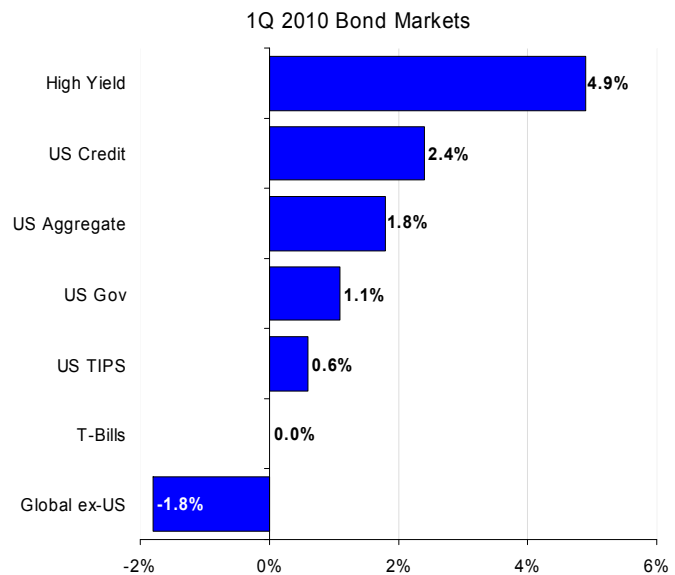
Bonds Produce Modest Returns

Overall, bonds produced modest returns in the first quarter as interest rates finished the quarter largely unchanged. Riskier bonds appreciated due to high demand by yield hungry investors. The Barclays Capital Aggregate Bond Index, which reflects the US investment grade, taxable bond market, produced a total return of 1.8% for the first quarter.



Treasury yields drifted lower through the first half of the quarter. A more optimistic view on the economy, substantial carry trading, and a poorly subscribed auction of government debt which signaled the risks inherent in financing the large US deficit, sent rates higher. A rise in global currency reserves, led by China, probably helped stunt the rise in Treasury rates. The yield on the benchmark 10-year Treasury note ended the quarter at 3.8% and the yield curve remained extraordinarily steep as the Fed continued to hold short rates at historically low levels. The Barclays US Intermediate Gov index returned 1.1% for the quarter.

Corporate bonds added 2.4% for the quarter per the Barclays US Intermediate Credit Index. Improving credit fundamentals, rising corporate profitability, increased corporate cash positions along with continued strong bond mutual fund inflows and the “crowding out” effect of the government mortgage buying program helped corporate bonds. The mortgage sector braced for the end of the Fed’s buying program but ended the quarter up 1.7% per the Merrill Lynch Mortgage Index. High demand for spread products might limit spread expansion in mortgages. High yield bonds continued their positive run as liquidity conditions in the credit markets continued to improve. As long as refinancing options are available, corporate default levels will be lower. The



Merrill Lynch High Yield Index returned 4.9% for the quarter. International bonds lost -1.8% for the quarter, though global high yield (4.6%) and emerging markets (6%) overcame the negative currency effects.

Active Management Lags

Because of the unique market conditions during the quarter, many equity mutual funds and active managers fell behind their benchmarks. Many domestic equity managers were long international stocks, thinking overseas growth would be robust and declines in the US dollar would boost foreign shares when translated into dollars. Instead, the debt issues in Greece and Portugal debt caused a strengthening of the dollar. Many US and international managers were also underweight slow growth Japan and overweight high growth China.

Returns for those countries turned upside down this quarter. Weak technology sector returns were also a draw back for many active growth managers who counted on reasonable valuations and a large international revenue component to sustain their value. Dividend paying stocks, long a staple of value managers, continued to underperform as they have over the last year. Many companies remain concerned about the health of their business, as well as the economy, and are content to build large cash reserves rather than pay dividends. Lastly, many active managers appeared to have built up cash positions in their portfolios, either as a result of targeted selling or as a hedge against a pull back in the market.

Overall, the quarter's capital market results were solid, though less spectacular than 2009. The markets remain challenged as investors worry about the sustainability of the economic recovery as gov't stimulus is withdrawn and as inventory re-stocking runs its course.

Retirement Plan Briefs

DB Plan Funding - The Senate passed a tax and jobs bill in March that included pension plan contribution relief. Provisions in the bill would allow defined benefit plans to extend the amortization period for investment losses from two of the years between 2008 through 2011. The current loss amortization period is 7 years while the bill would allow loss amortization over either a nine year (2 year interest only, 7 year standard amortization) or a fifteen year period. Certain funding requirements would apply to plan sponsors whose compensation practices exceed \$1million per year or pay out extraordinary dividends or exceed a 10% stock redemption threshold. The bill must next clear the House of Representatives.

401(k) Investment Advice - The Pension Protection Act of 2006 amended ERISA to create an exemption from the prohibited transaction rules to make investment advice more readily available to 401(k) plan participants. A proposed investment advice rule was originally issued by the Department of Labor (DOL) in 2009 but was withdrawn based on concerns that it did not adequately protect investors from conflicted and self serving investment advisers. The DOL reissued this regulation in February of this year. The revised regulation allows investment advice through the use of a computer model certified as unbiased and/or through an adviser compensated on a "level-fee" basis where fees do not vary based on investments selected by the participant. The regulation imposes other requirements including investment model certification, annual audits and disclosure of the adviser's fees, among others. Interestingly, the DOL has asked for comments on the role of specific investment theories, investment fees, historical returns and other factors in these computer models. There is some speculation that the DOL might require the computer models to include only index funds. The public comment period closes in May with a final regulation expected later this year.

Lifetime Income Products – The US Treasury and the DOL, with an interest in “promoting the availability of annuities and other forms of lifetime income, which transform savings into guaranteed future income, reducing the risks that retirees will outlive their savings”, have issued a Request for Information on the use of lifetime income products in retirement plans.

With over 500 comments so far, the following actual response seems to best characterize the public's input; "keep your damn hands out of my retirement."

Sincerely,

Timothy C. Burns, CFA

Hunter Capital Advisors, Inc

