



Market update

National

- NASA just released some new photos of Mercury, taken by the Mercury Messenger spacecraft. With a daily range of temperatures from -150 °F -800°F it's not a place that astronauts will vacation anytime soon. Mercury is now the smallest planet in the Solar System. (Sorry Pluto) **Human innovation and discovery continues.**
- President Barack Obama called for a 33% reduction in oil imports over the next decade in a speech at Georgetown University. Sensibly; this corresponds to the oil imported from the Middle East and Africa. **Energy consumption is going to increase as the economy improves. We have been positioning portfolios for the cyclical energy trend. Oil remains important, but there is a shifting investment focus to alternative energy sources, namely natural gas, coal, and solar.**
- In a continuing trend, Ohio now joins the ranks of states with anti-union rhetoric and legislation. Coming on the heels of what has recently occurred in Wisconsin, Indiana, and a dozen other states, Big Labor is under attack. The bill prohibits public employees from striking or bargaining for healthcare and pensions. Although the bill allows unions to negotiate wages, it does so only at the public employer's request. **The age of powerful unions is drawing to a close in America. This is a complicated issue with implications for the middle class, but with budgets under pressure, there is no sacred cow. Historically, unions have been a powerful political force for Democrats, but given the recent outcome of the mid-term elections (which were essentially a backlash against spending); the Dem's are mum on the issue.**
- Schools across the nation are bracing for thousands of layoffs. **Budget cuts are getting deeper and no public sector employee is safe in this environment. Muni-bonds are still a concern.**
- A potential government shutdown is still looming around the corner. Budget negotiations are the culprit. It's not clear if a compromise will be made as to the magnitude of the cuts, but realistically, both

the Republican and Democratic cuts are superficial, and don't materially impact the long term liabilities that face our country. **Social security, Defense Spending, and Medicare make up the bulk of the federal budget. The proposed cuts don't deal with the 800 pound gorillas (over 60% of the budget). Politically speaking, these are all third rail subjects that no one is addressing. Tax revenues and borrowing to pay for these programs is the core of the issue. The US will not be able to borrow at these low rates indefinitely; meanwhile Moody's and S&P have issued warnings about downgrading the US debt rating.**

Geopolitical

- The Japanese earthquake may cost the Japanese government \$300B. Japan has the highest debt-to-GDP ratios in the developed world (225%). Japan's decade's long deflation and numerous failed bail-outs are the cause. Radiation levels off the Japanese continue to rise, putting their offshore fishing industry and onshore agriculture at risk. **There is no question that Japan is in crisis, but historically Japan turned from a war torn country into a global economic juggernaut. I personally believe that what occurred in that country, although catastrophic and a humanitarian tragedy, will catalyze a Japanese revival. There is a lot of rebuilding to be done, and they are some of the greatest innovators the world has known. The Japanese are a great people with a solid future. I believe they will deal with this crisis and become stronger from it, just like they did after the Hiroshima and Nagasaki atom bombs.**
- NATO has taken over the command of the Libyan operations. The US CIA is operating in Libya to assist the operation. Obama remains focused on multilateralism. **The Obama doctrine has emerged as a result of this conflict. This central part of this doctrine is that there will be negotiation and collaboration over confrontation and unilateralism in international affairs. This is a stark departure from the Bush doctrine of foreign policy.**



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- Obama gave his case for Libyan operations this week during a presidential address. Typically, the president announces war from the Oval Office, but Obama chose to make the speech at the National Defense University. Make no mistake this is a war. Obama said that this was a humanitarian effort to prevent the slaughtering of civilians. He made no mention of oil in his speech. **Let's face it, politicians don't won't share that this is a war about oil. By suppressing a despot in Libya, it signals to the rest of the Middle East and Africa that if there is potential oil price disruptions the bombs will start flying. It also supports the democracy movement in the Middle East. If protestors start getting shot in the streets oil rich nations, there will be military action unless the dictators already allow Americans in their countries to fight Al Qaeda (Yemen, Saudi Arabia, and Bahrain)**
- The Bank of Ireland failed today's stress test as the European debt crisis continues. **In my view this is the only current real crisis that deserves close scrutiny. The Euro zone is a massive economy and credit woes have a real impact on businesses and spending.**

Macroeconomic Environment

- The stock market is on pace for its best first quarter since 1998. **Despite all the crisis and fear mongers, the stock market continues to rally.**
- The latest ADP report indicates that private payrolls increased by 201,000 in March. **Although the labor market remains bleak, it's improving.**
- The S&P 500 is encountering some resistance at the 1330 level, but the tone remains bullish. The Dow is within striking distance of the two year high that it reached before apocalyptic headlines started to drive trading. **Markets are driving higher.**
- The VIX (the market's measure of volatility or the panic indicator) continues to fall. It traded as high as 29.40 and has pulled back to 17.40 over the course of two weeks. **Looks like buying stocks into the crisis was the right call.**
- Personal income and Personal spending continue to rise. Home sales remain pathetic. Consumer confidence has pulled back somewhat, but this is understandable given the recent headlines.
- Today's initial Claims showed a slight decrease to 388 from 394k. March is a longer month than February, so the month-to-month comparison shows a slightly more positive improvement, with no real meaningful change. **The Fed's still in the game.**
- Today's Chicago's PMI reading of 70.6 shows that the manufacturing is continuing to expand, but it's just a tad lower than last month's reading of 71. This is better than the market was expecting.
- Tomorrow will be a big day for economic data with the Labor report. **The light volume of the past week should probably increase after the report.**

Microeconomic Environment

- **M&A activity continues (market positive)**
Last week's M&A announcement from AT&T helped to improve the mood and new M&A activity has been announced. Valeant Pharma (VRA) made a hostile bid offer for Cephalon(CEPH). **M&A activity signals that companies are finding value in the market. This is a bullish sign.**
- Berkshire Hathaway's David Sokol resigned in light of his unethical trading of Lubrizol. Mr. Sokol was the frontrunner for taking over Berkshire when Warren Buffet steps down. This brings some uncertainty to the succession planning at Berkshire. In another story, according to testimony at the Galleon Capital trial, Raj Rajartnam had a direct line to the Goldman Sach's boardroom. **I guess these guys didn't attend Sunday school.**
- Oil has pulled back, but other commodities such as corn continue to rise. **Food and energy inflation remain a concern. Owning commodities or commodity related companies makes sense.**
- Stocks are starting to break out and a new uptrend is in place. Key stocks are starting to break out. Tech is starting to lag, but given the Nasdaq's six month gain, this is totally understandable.