

Review for 2010 and 2011 future outlook

Financial markets continue to recover

Financial markets around the world continued to push higher in 2010 marking the second year of recovery from the deepest crisis since the 1930's. A prominent theme of 2010 was the importance of government and central bank support. That support will continue, but at some point governments will look to reverse their stimulative strategies and nudge their economies to stand on their own.

Stocks overcome concerns and push higher in 2010

Despite a weak housing market and persistently high unemployment, most major stock market indicators showed impressive gains. The Dow Jones Industrial Average gained 11%, the S&P 500 index rose 12.8% and the NASDAQ Composite jumped 17.3%. European stocks overcame sovereign debt concerns as the Stoxx Europe 600 index added 9% while emerging markets jumped 16% as measured by the MSCI index.

A crisis in Greece leads to bold action by the European Union

In early May, the European debt crisis came to a boil when Greece threatened the financial stability of the European Union and had the

potential to spread worldwide. On May 9th, with turmoil spreading, European governments unveiled a nearly trillion dollar rescue package as the European Central Bank purchased forty billion euros of bonds in the open market.

Bold action from the U.S. Federal Reserve

In late August, during a speech in Jackson Hole Wyoming, Federal Reserve Chairman Ben Bernanke sparked a wave of stock buying when he suggested another round of quantitative easing—commonly called QE2. In September, the Fed made it official and announced that it would inject \$600 billion into the financial markets through the purchase of Treasury bonds.

Holiday gifts from Washington D.C. with more tax cuts and benefits

In December, investors were given a holiday gift in the form of tax stimulus. For a while it seemed like parts of the Bush-era tax cuts along with unemployment benefits would expire. After intense negotiations, the White House and Congress produced a deal that extended benefits for everyone for two more years and included a reduction in Social Security payroll taxes.

Treasury yields stay low while Municipal bonds were unsteady

U.S. Treasuries continued to remain attractive as a potential safe haven from world events helped by the Federal Reserve bond buying program. This should keep yields low for some time. In contrast, municipal yields rose unexpectedly—primarily due to new municipal bond offerings, state and local budget deficits and the elimination of the popular Build America Bond program.

Challenges and opportunities in 2011

The U.S Government has already taken steps to lessen its influence in the board room by selling stakes in General Motors and Citigroup. The challenge for policy makers will be when and how to take their foot off of

the gas and let the markets operate more independently—thus removing the ‘training wheels’ that have been supporting the financial markets.

Did you know?

Ed Sherr is training for the 2011 Boston Marathon as a member of The Leukemia & Lymphoma Society's (LLS) Team in Training. Everyone on the team is committed to help stop leukemia, lymphoma, Hodgkin lymphoma and myeloma from taking more lives. To learn more about what inspired Ed, please visit his training page <http://pages.teamintraining.org/ma/boston11/esherr>

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We look forward to continue serving your investment management and financial planning needs. Please contact us if you have any questions, if you'd like to schedule an account review or learn more about our comprehensive planning services.