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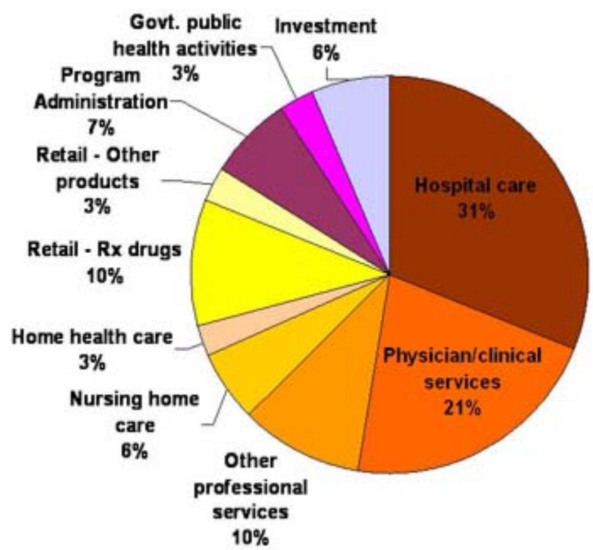
The fourth quarter ended with more positives than negatives. Stocks rallied back to end the year up 26.45%, 6.04% in the quarter. The bond market held firm to early year gains, returning 16.60% for the year despite a sputtering in the fourth quarter of only 0.16%. International markets made impressive moves back to the black, up 2.23% for the quarter, 32.45% for the year.

The sudden snap back of the markets in the 3rd and 4th quarters had much to do with government lending. The infusion of cash allowed for a healing period of stock earnings to prices. However, the market has become overvalued again. Price to earnings ratios are escalating. We will likely see a reduction in values early this quarter, but not to the level of early 2009.

Unemployment numbers are holding steady at about 10% which will be helpful in balancing the needed rise in inflation. The quicker unemployment drops (historically: 1950 – 2005, Phillips Curve) the faster inflation rises. Slow moves on both sides will ease the burden. Inflation protected securities may still be an option as will moderate exposure to alternative investments.

Politically, taxation of gains and income (both on Congress' agenda) may not be as big of an issue as health care. Costs for health care have been rising for decades. We are approaching $3 trillion (2009). For perspective, costs in 1980: $253 billion; 1990: $714 billion. These increases far outpace inflation. Is this bad? Only about half of these dollars are paid by the private sector (Medicare and Medicaid make up the lion's share of the remainder). Alone the numbers mean nothing other than a trend. The rub is in affordability. We are at a tipping point where it is too expensive to buy it and financially devastating to be without it. Taxpayers can't afford to pay for themselves as well as paying for non taxpayers.



(Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group)

Though inflation is looming, no dramatic move from the Fed is expected for the next few months. The longer the rates hold steady the easier the transition to increasing employment will be for large corporations. As they go, so will small companies. The battle against hyperinflation and high unemployment will continue to be the main indicator of domestic stock increases.

As I write, Bernanke's confirmation seems to be back on track, though we had a few unsettling days. If confirmed, we can at least enjoy stability in the Fed. The turmoil was born from politics, not economics. "They're fortunate that they can keep a low profile right now and not do much of anything from a policy standpoint," said Peter Hooper, chief economist at Deutsche Bank Securities. "The political pressure on the Fed has unequivocally increased." We can only hope good politicking doesn't mean bad economics.

We are again cautiously optimistic moving forward. No one could foresee the unexpected end of 2009, up 26%, back in March. This continuing volatility may mean a good time to do a complete reevaluation of the investment guidelines so we can extract more return while keeping diversified. I will follow up with comments on President Obama's State of the Union Address.