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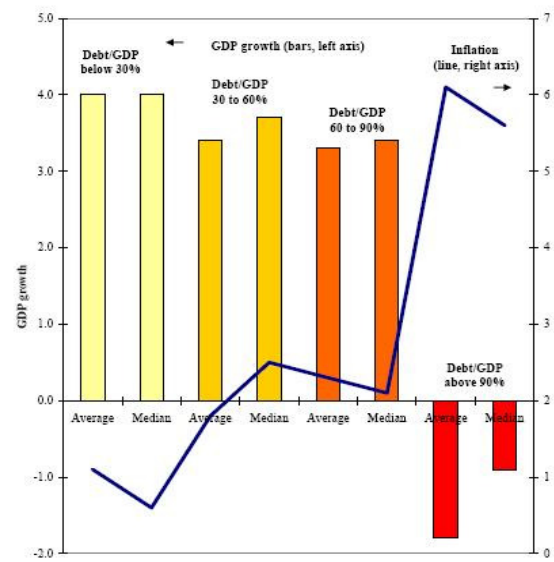
The first quarter of 2010 saw healthy gains in the stock and bond markets. Equities moved up 5.39% while bonds posted an impressive 1.98% increase. International markets edged up 0.87% and cash accounts remained flat. The sense of optimism for domestic equities is somewhat muted by fears of inflation.

Over the next several months, the impact of the Fed's policies will be known. If the stimulus worked, it will have given businesses much needed time to heal the wounds from the banking fiascos. Inflation (a needed element for full recovery) will be painless as money managers will have planned accordingly for it. If the stimulus was a bad idea, we will see quick and volatile inflation which will add dramatically (given the President's short track record of treasury infusion to the economy) to the national debt.

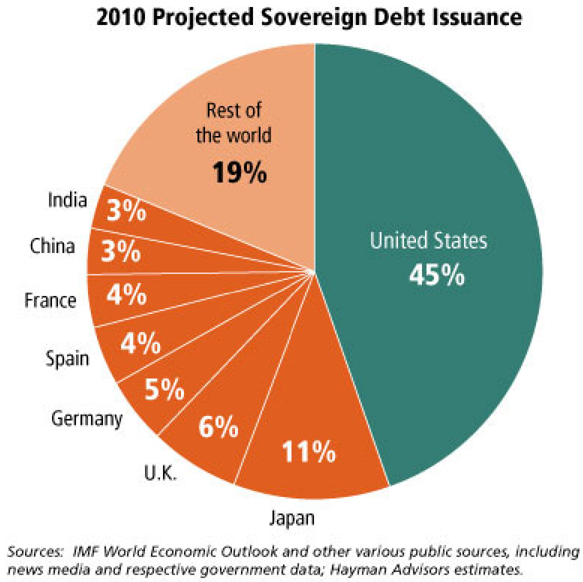
Exhibit 3

Historically, High US Debt Correlates With High Inflation and Low Growth



Source: Reinhart and Rogoff, Growth in Times of Debt

Historically, we can see that the more debt the US issues, higher the rate of inflation and lower the rate of economic growth. Coupled with the Fed's printing press, this stands to reason since more actual dollars are flowing thus diluting purchasing power. Inflation in poor economic times hinders growth, as companies are simply trying to keep pace. The stimulus package did allow companies to heal their wounds from the downturn and this is going to help fight inflation. But as we move forward, it will be up to the Federal Reserve to manage against a quick up tick.



Recently, I was asked how real the inflation fears for the US are, and how do we fair compared with other nations. Though I like the US as the catalyst for world economic recovery, I know we must be smart about it. Other nations rely on our consumer-driven economy, and if we can continue to be the money making force, we'll fair well. However, there is a serious problem in the level of debt issuance. The projected sovereign debt issuance for the United States for 2010 is 45% of all nations combined. The next closest are Japan (11%), the UK (6%), and Germany (5%). Aside from the top 8 nations, the rest of the world's nations combined is only 19%. We're still the big economy in the world but unlike other major countries (like Germany, the 4th largest economy on Earth) we have the habit of forgiving the debt of poor countries. Morally that's the right thing to do, but it is becoming a severe burden.

Moving forward, I am cautiously optimistic. Mid-term election years can be both a blessing and a curse. The business community likes stability. Changes in tax, health and corporate law changes the rules within which businesses operate. This makes projecting and executing business plans difficult.

I enjoy our phone conversations; you are all part of our planning for investment strategies. Please do keep calling and I will keep reaching out.