



Registered Investment Advisor

STEIN WHITTINGTON DENIEL INVESTMENT ADVISORS

Wealth Manager

April 10

MARKETS HAVE BEEN STRONG OF LATE; ARE WE OUT OF THE WOODS?

Rarely have the equity markets been so strong, despite the fact they confront incredibly difficult scenarios. The first quarter of 2010, discussed on page two of this Newsletter has continued the sizzling returns made last year. However, even at the end of the first quarter, the S&P 500 remained approximately 25% below its all-time high posted October, 2007. The disastrous markets of 2008 should not be dismissed as some type of anomaly; it is well proven that stock markets prices always project what investors foresee for the future. Therefore, we are wise to consider what the future holds based on the best information available to us today and recognizing no human holds a crystal ball foretelling the future.

While it is not our desire to make any political statement, it is fairly well documented that the nation's 2011 budget will generate nearly \$10 trillion in cumulative budget deficits. At the same time, it is projected that by 2020 the federal debt will reach approximately 90% of the nation's economic output ("GDP"). (Washington Times, March 26, 2010). As of April 2, 2010, the National debt of the U.S. stands at more than \$12.5 trillion. (a "trillion" is one million millions; a "1" followed by 12 zeros). Some experts have stated that it is impossible to continue our country's business as "usual" once the national debt approaches such a large percent of our GDP. At the end of 2008, the national debt ratio to GDP was approximately 40%. It remains to be seen, moreover, how the economy can continue to recover, if unemployment figures and real estate prices do not begin to show meaningful improvement.

As a corollary to the nation's financial health, the nation's currency has strengthened somewhat as interest rates have begun to rise slightly in

recent weeks. The era of historically low interest rates could well be nearing an end later this year as we need to strengthen our treasury securities and currency.

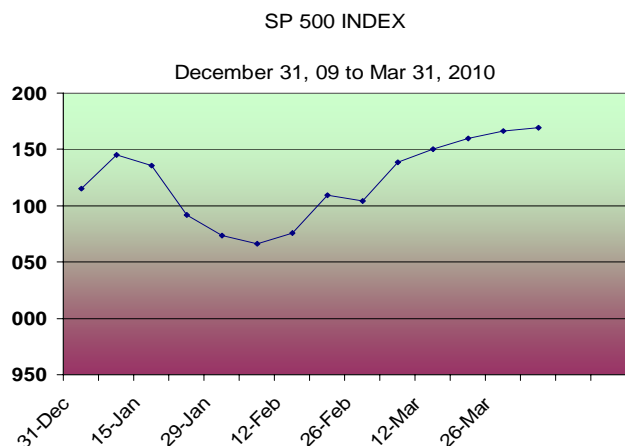
On the other side of the ledger, most experts expect corporate earnings from the first quarter of 2010 to be robust. Most stock market recoveries are led by financials. One positive is that banks appear to be recovering from the staggering credit losses of 2008 and early 2009. Bank reserves are thus not taxed as much. The high tech and consumer industries also have reported substantial earnings for the past two or three quarters. Lastly, on the bullish side, commodities ended the quarter high, as crude oil stood at about \$85 a barrel for the

first time since October, 2008 while gold, copper and agricultural commodities all posted strong gains — all this happening while the world slowly recovers from a recession, thus suggesting a great deal of more upside potential.

As volatility is one measurement of market risk, ... one can readily ascertain that market risk has declined markedly from the prior 12 months.

One very interesting index during the past 12 months has been the VIX index which measures volatility in the markets. In our January 2009 Wealth Manager, we noted that during 2008's disastrous year there had been record high volatility which usually marks market bottoms. This comment was right on point and quite accurate. During the past 12 months, in contrast, the VIX index has declined from 42.28 on April 1, 2009 to 17.59 on March 31, 2010, a decline of just over 58%. As volatility is one measurement of market risk, from this observation, one can readily ascertain that market risk has declined markedly from the prior 12 months. We also want to note that Covered Call premiums are closely correlated to market volatility: the higher the volatility, the higher Covered Call premiums. When volatility declines, premiums will be lower. Notwithstanding the lower volatility environment, our Covered Call premiums continue to produce approximate cash in excess of 1% per month on assets under management.

THE QUARTER IN REVIEW



The First Quarter of 2010.

The First Quarter of 2010, though tumultuous, continued the bull market of 2009. During the quarter, the DOW gained 425.58 points or 4.1% to close at 10,856.63. The Nasdaq Composite advanced 5.7% and the broadest index, the S&P500, gained 4.9% for the quarter. Yet, during the quarter, the markets saw a sharp correction which began in the middle of January and bottomed in early February, 2010. For example, during the market decline, the DOW dropped 701.56 points between January 15th and February 8th. Inasmuch as the three major indices all finished the quarter up strongly, the advances off the February lows, were quite impressive. The upward trend as the quarter closed was encouraging. Soon, corporations will report their first quarter earnings. Particularly with lower labor costs, and improving business environment, the prospects are excellent for higher corporate profits. More than any single thing, the price of equities follows earnings.

Inflation still appears relatively mild, even though most commodities, such as copper, iron ore, agricultural commodities and crude oil rose substantially during the quarter — to be expected in an improving business environment. It is anyone's guess when the Fed will commence raising interest rates from the historical lows now in effect — most commentators are estimating June, 2010 with more support for their position than we found in 2009. We must recognize that until record high unemployment begins to recede, it is unlikely the Fed will raise rates. As we write this Newsletter, we should mention that on April 2, 2010, it was announced that notwithstanding a significant increase in new jobs, the unemployment rate

nationally remained at 9.7 for the third straight month. The report of April 2nd also noted there were still approximately 15 million Americans out of work, roughly double the number of unemployed when the recession began in December, 2007. We will watch closely as Congress debates a further stimulus package, healthcare legislation becomes reality, and the Bush tax cuts expire.

There was strong evidence during the first quarter that world markets were also improving; particularly in Japan, the world's second largest economy. Also, emerging markets continue to see solid growth from the hits taken in 2008. It should be mentioned, however, that several knowledgeable analysts have strongly cautioned against counting on a sustained recovery in China due to (1) lower birth rates, (2) a lower ratio of exports to imports, and (3) an overbuilt real estate market.

We want to caution that the prospect of wild market fluctuations remains given the danger posed by a nuclear Iran and steps other countries might take — including crippling sanctions — to blunt Iran's nuclear ambitions.

Current and foreseeable market conditions are favorable for Covered Call Writing even if premiums are lower due to lower market volatility. After the strong advances of the first quarter, moreover, a market correction would seem reasonable. If this occurs, Covered Call Writing would again prove a superior strategy, as sharply accelerating markets moderate or even retreat.

Charles Schwab and Co: we are not affiliated with Schwab. However, from time to time they have product offerings that our clients might be interested in. Schwab Bank has a no fee, free checks, electronic bill paying bank account. They also have a 2% cash back credit card. If interested, call our office for info.

Stein Whittington Deniel Investment Advisors
73-255 El Paseo, Ste. 14
Palm Desert, CA 92260
Telephone (760) 776-1488
Toll Free (888) 650-9300
Fax (760) 776-5778
Web site: www.steinwhittingtondeniel.com

