

WOOD & WHITE

Investment Advisors, LLC

Market Commentary

April 16, 2010

To our clients and friends:

Building on the strong gains of 2009, the U.S. equity market shook off some brief mid-quarter turbulence and continued its impressive recovery through the first three months of 2010. The Dow Jones Industrial Average posted a total return of 4.79% in the first quarter, its fourth consecutive quarterly gain. The S&P 500 Index recorded a total return of 5.38% for the quarter and is now up almost 50% over the past twelve months. The Russell 2000 Index of small-cap stocks rose 8.5% in the quarter, the highest of any of the major U.S. market indices. Sectors of the market that were hardest hit in the downturn continued to lead the recovery, with the consumer discretionary, financial and industrial sectors each up over 10% for the quarter. International markets generally lagged the U.S., with the Dow Jones World Index (excl. U.S.) up only 1.4%.

By quarter end, the credit markets continued to show evidence of a sustained recovery, with investment-grade and high-yield corporate debt issuance rebounding to the highest levels in months. Investor appetite for corporate debt outweighed this increase in supply, as corporate bonds weathered a mid-quarter hiccup to post a positive return of 2.3% for the first quarter, according to Barclays Capital. The 10-year Treasury yield ended the quarter almost precisely where it began, at 3.84%, up from 3.83% at the end of 2009. The Barclays Intermediate Government/Corporate Bond Index posted a total return of 1.54% for the quarter, bringing its return for the last twelve months to an almost equity-like return of 6.92%.

In our market commentary from last quarter (available at www.woodandwhite.com), we theorized that the initial relief rally had largely run its course, and that corporate earnings and expectations for economic growth would likely determine the sustainability of any meaningful stock gains in 2010. Further, having entered the year with positive equity returns in 9 out of the preceding 10 months, we believed the equity market could be ripe for a short-term correction. The main question in our mind was when the correction would arrive and what the catalyst for a sell off would be. A combination of worries – ranging from debt woes in Greece to China's initial efforts to tighten fiscal policy – sent tremors through the global bond markets and knocked stocks temporarily lower in late January and early February. However, this sell off proved both shallow and short lived. The Dow Jones Industrial Average dropped approximately 7% from its peak in January before stabilizing, as the global markets responded favorably to the European community's steps to contain the effects of the crisis in Greece. Corporate earning growth and persistent evidence of continued economic improvement combined to further squelch the mini-correction in stock prices and pushed stocks higher from the final weeks of February through the end of March.

Clearly, our clients have been rewarded by our willingness to stay invested throughout the market collapse and recovery. Current financial market conditions bear little resemblance to that of a year ago, and we believe that the current environment more accurately reflects the underlying long-term resilience of the domestic economy. Sentiment has improved and we sense that investor focus has gradually shifted from fear of a “double dip” recession to a reluctant acceptance that the worst may be behind us. That said, the pain from the market collapse of late 2008 and early 2009 is far from forgotten. In our daily interactions with clients and colleagues, we detect an underlying aversion to risk that may take years to dissipate. Ten years of negative equity returns in the stock market has resulted in claims that the long-term “buy and hold” investment strategy is broken. We have seen a corresponding increase in sophisticated “risk reduction” investment products being pedaled by Wall Street firms. Despite the significant rebound in stock prices over the past twelve months, it is notable that the majority of fresh cash committed by individual investors in 2009 went into bond mutual funds – the asset class that arguably may offer the least attractive investment returns over the next 10 years.

It may seem counterintuitive to some, but we believe these trends augur well for U.S. stock performance moving forward. The equity market has traditionally climbed a wall of worry. The current environment reflects a healthy skepticism and risk aversion that should provide support for an equity market that we believe is reasonably valued. Further, we continue to believe that an appropriate allocation to high quality bonds, coupled with a sufficient provision for client liquidity needs, will provide our clients a measure of protection that is superior to any sophisticated modeling process or packaged investment product.

As we have stated previously, we believe the clearest hurdle on the horizon for stocks relates to the Federal Reserve’s efforts to finesse a gradual tightening of its extraordinarily accommodative fiscal policy. How will markets react when the Federal Reserve begins withdrawing liquidity? If the Fed remains accommodative for longer than expected, will inflation expectations and fears increase markedly? Precise answers to these questions are unknowable, but we believe that this transition is likely to produce periods of increased volatility in the near-term.

As of this writing, the stock market remains over 20% below its highs set in October of 2007. High-quality stocks remain a far more compelling long-term opportunity than bonds or cash. Therefore, we will remain a net purchaser of equities on any meaningful market pullback. We welcome your comments and questions at any time.

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