

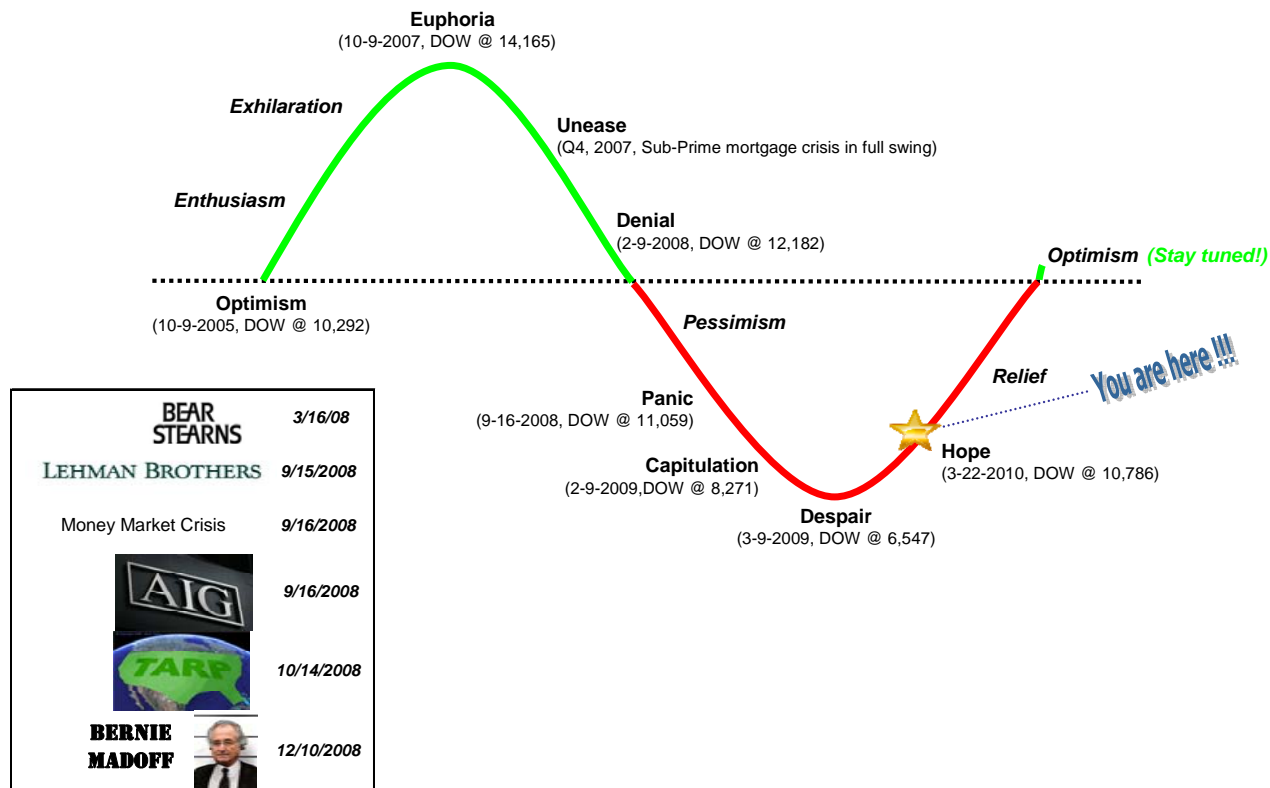
“The era of optimism dies in the crisis, but in dying it gives birth to an era of pessimism. This new era is born not an infant, but a giant.”

-Arthur C. Pigou, (November 18, 1877 – March 7, 1959) Professor of Economics, Cambridge University

Slightly more than a year has past since the worst stock market crash of our lifetime. Historically, investors’ psyche has followed a typical path as illustrated in the graph below. As such, we have cross-referenced the emotional state of mind you may have experienced with the stock market’s gyrating performance over the past 3 years. Understanding these principles helps us to recognize why significant pessimism still lingers with investor attitudes toward stocks. As you read the following graph, the investor is currently positioned at the point of **Hope**.

Market's Emotional Roller Coaster

Maintain Discipline = Key to Long-Term Success



The choir has all but sung the benediction that this recession ended last May or June 2009. Furthermore, leading economic indicators have continued to improve over the last 10 consecutive months, suggesting we are entering a new bull market recovery phase. (For more information, please visit our web page at <http://www.glassjacobson.com/blog/> . While indicators point to this more positive scenario, a case can be made for another temporary slip into a bear market before the full recovery takes hold. We have outlined the case for you here...

CASE FOR BULL MARKET RECOVERY	CASE FOR BEAR MARKET RECOVERY
Unprecedented global stimulus	Federal Reserve begins exit strategy from stimulus
Pent-up demand building for consumers and businesses	Unemployment rates remain elevated
Household debt decreasing and net worth rising	Government budget deficits (federal, state and local) growing
Foreign economies recovering sharply and global industrial production surging	China puts on monetary and fiscal brakes and Greece's economic failure threatens European recovery
Booming corporate profits and productivity	Real estate only seeing fledgling recovery
Inflation remains tame	Government initiates rising taxes and protectionism
Credit markets back to 2007 levels	Global debt shifts from private to public sector
Reasonable valuations in stocks	Political quagmire

Some final thoughts about the current state of our economy:

- CEO optimism is high, back to pre-2007 levels per the Business Roundtable. However, small business optimism remains anemic for now.
- There is typically a 6-10 month lag between the recession's end and the unemployment rate peak. Leading indicators show that unemployment claims are on their way down.
- Banks have capacity to lend. They can lend up to 9 times the amount of their deposits. They are currently lending at 1 times. Until the "velocity" of money creation accelerates, inflation will remain tame.
- Bull markets are often born in recessions. Typically, stocks lead the economy, and the stock market has favored weak, slow growth.
- The "wall of worry" has not been completely toppled - some are still worried about overvalued stock prices and another correction. However, current stock valuation is at worst neutral (meaning stocks are fairly valued), suggesting a lot of room for the upside.

At Glass Jacobson, our investment beliefs are strengthened from these economic insights and remind us of the importance of adhering to your investment plan. Please call us if you have any questions or are interested in discussing these topics in greater detail.

Sincerely,

Glass Jacobson