

MONEYWATCH

ADVISORS

Newsletter to Clients

February 2010

The TD Ameritrade Institutional 2010 National Conference in Orlando was a success. Ramsey Bova, Bill Leffler and I immersed ourselves for two and one-half days of education and networking with fellow professionals. From my personal point of view one of the highlights of the conference was the opportunity to view and listen to our two most recent U.S. past presidents discuss national and international issues, personal triumphs and failures during their presidencies, and each other. Both men were remarkably complimentary of each other's accomplishments. Their presentation kicked off a great conference.

Don Drummond, Chief Economist of TD Bank Financial Group, a perennial Keynote Presenter on the outlook for the United States economy, had positive predictions. The recession has ended and he predicts economic growth at a rate of 2.9% for 2010, which is fairly anemic but better than the reverse path of the past year. For 2011, he expects growth of 3.4%. Along with these predictions on the economy, he said he expects the United States ten-year bond yield to rise from about 3.5% currently to 5% and the three-month United States Treasury Bill rate to move up from near zero to 3%. The Fed Funds rate which is currently zero should rise to 1% by January 2011. This man has been prescient in the past so we have a tremendous amount of respect for his predictions. More on how these predictions may affect our investment strategy...

Absent from the roster of speakers was a stock market forecaster. Last year in our report to you on this conference we wrote: *Bob Doll, Global Chief Investment Officer for BlackRock, outlined his company's predictions for 2009. He foresees higher stock prices this year. He is convinced that the stock market has bottomed, having gone sideways since the October lows. This base building is important for the next upward leg, which typically averages about 40% but won't be so this time around. We could very well see a mere 10% increase in stock market prices this year. A common thread among participants is the need for active portfolio management. We no longer can view index funds as the inexpensive answer to participation in the stock market.* He was a lone voice of optimism in February 2009 but think back, the bond market was recovering and the stock market bottomed in March. Doll would not dare to return because he was dead wrong in his prediction of only a 10% increase. But worse, everyone else was predicting continued gloom. Such crystal balls!

Here we are today looking forward to tomorrow. The recent stock market downturn in January had to happen sometime because the markets don't move in one direction without interruption. Ten to fifteen percent retracements are not unusual and actually healthy. The bounce in the market started from an extraordinary low during a time of unimaginable fear. None of us had experienced such a scary and savage financial market in our life times. The rise in 2009 started from an exaggerated low and reached a similar high. Now we are adjusting to reality. Going forward, the economy according to Drummond will grow at about 3%+ level. Add the historical 6% stock risk premium we arrive at an expected return of 9%. Not too shabby!!

BlackRock Floating Rate Income Trust (BGT) WILL benefit from rising interest rates. The bank loan participation funds were structured as a hedge against inflation and attendant rising interest rates. Once short term interest rates start to rise again, BGT will earn more income and pay it to us.

We have a special edition prepared by Ramsey Bova featuring one of the mutual funds we recommend.

Lexington visits – Bob Bova February 22-26, Bill Leffler February 24 – March 3

Thank you for your continuing confidence.

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