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## **Market Commentary – Frank Sterneck**

The first quarter of 2009 began by looking like a continuation of what we experienced in 2008. March, however, proved to be a pleasant relief as equity markets rebounded smartly off their recent lows. The S&P 500 posted an 11.01% loss for the quarter, even after a 20% rally over the span of three weeks. This marks the sixth consecutive losing quarter for the US equity market. The bond market generated a respectable return in March of 1.39%. The Barclays Aggregate Index finished the quarter with a return of 0.12%.

A concerted effort on the part of the Federal Reserve, the US Treasury, and governments around the world have begun to calm the credit markets, following enormous amounts of liquidity and stimulus being pumped into the financial system. Fortunately, the markets are forward looking. Even though we have not necessarily seen the bottom in terms of unemployment, corporate earnings and other economic indicators, the equity market has recently looked beyond today's headlines. If the financial stocks can establish credibility that their losses are manageable, the crises in confidence should abate. Improved confidence should lead investors into the equity market as they move out on the risk spectrum.

The Federal Reserve's recent announcement of its intention to purchase government and mortgage securities may have a number of stimulating influences on the markets. Current government bond interest rates offer little to those who insist on the safest of investments. Looking down the road, it's difficult to see how inflation won't become a threat to a recovering economy. In the meantime, the banks are enjoying a relatively steep yield curve and a minimal cost of funds. The positive spread should beneficially improve banks' net interest margins. We continue to favor municipal and corporate bonds among fixed income securities. Treasury inflation protected securities (TIPS) are the only government bonds that offer real positive rates of return.

In these unprecedented times, it's never been more difficult to stick to one's investment plan. Investment decisions should be reviewed regularly. However, changes should be heavily based in fact and process, not emotion. I am cautiously optimistic that the past several weeks represent the beginning of better times ahead for both equity markets and the global economy in which we live.

Frank Sterneck

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