



Brounes & Associates

4607 BRAEBURN DR. • BELLAIRE, TEXAS 77401 • 713.962.9986 • ron@ronbrounes.com

AND THAT'S THE "QUARTER" THAT WAS... For the Quarter Ended June 30, 2009

Market Matters...

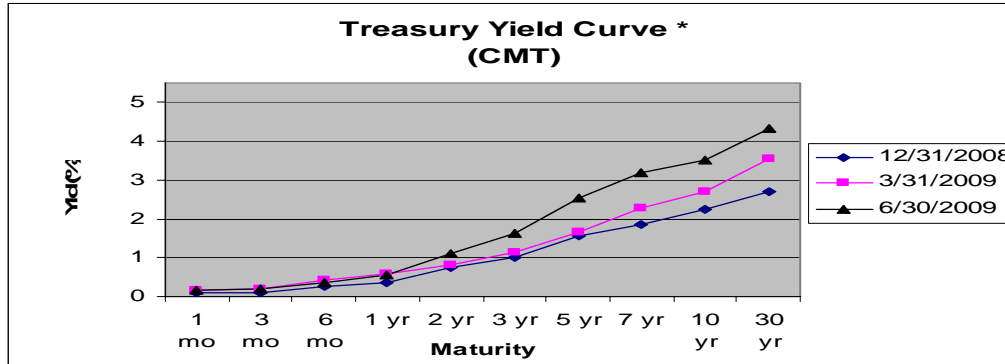
Market/Index	Year Close (12/31/08)	1 st Qtr Close (03/31/09)	2 nd Qtr Close (06/30/09)	Qtr Change	YTD Change
Dow Jones Industrial	8,776.39	7,608.92	8,447.00	+11.01%	-3.75%
NASDAQ	1,577.03	1,528.59	1,835.04	+20.05%	+16.36%
S&P 500	903.25	797.87	919.32	+15.22%	+1.78%
Russell 2000	499.45	422.75	508.28	+20.23%	1.77%
Global Dow	1526.21	1347.38	1,629.31	+20.92%	+6.76%
Fed Funds	0.25%	0.25%	0.25%	0 bps	0 bps
10 yr Treasury (Yield)	2.24%	2.68%	3.52%	+84 bps	+128 bps

For those folks adhering to the "trend is your friend" mindset, the 2nd quarter of 2009 was one of the friendliest periods in recent memory. After the "gloom and doom" of the past few quarters, investors picked themselves up by their bootstraps, found positives in the ongoing negativity, and went bargain-shopping. When the dust had settled, the Dow Jones (+11%) experienced its best quarter since late 2003, and other major indexes performed even better. With initial signs of an economic recovery (see below), confidence returned to the marketplace, and financials, energy, and basic material stocks led the charge. Technology enjoyed a bit of a rebound as analysts predicted companies may go on IT buying sprees as the recession comes to a close. Emerging markets were in hot demand with China (+25%), Brazil (+26%), and India (+49%) all outperforming many of their developed country counterparts. With some investors willing to take on more risk (and others fearing a ratings downgrade as the deficit skyrockets), government securities gave up ground and yields climbed during the quarter. On the other hand, fixed income investors found attractive returns among investment grade corporates and "high yield" (junk) bonds, two classes that had been shunned in recent quarters. By late-June, some profit-taking ensued as folks feared the markets had moved too dramatically over such a short time frame.

The quarter also offered numerous reminders that "Rome was not built in a day" and the economy would not recover overnight. Both **Chrysler** and **GM** sought bankruptcy protection as domestic automakers began the long restructuring process (at taxpayer's expense). Chrysler joined forces with mighty **Fiat** of Italy, while GM took in another \$30 billion in government aid and attempted to unload such brands as Saturn and Hummer. Major banks began to move out from under the long-arm of Treasury with **JP Morgan-Chase**, **Morgan Stanley**, and **Goldman Sachs** heading a group that paid back TARP loans, though S&P downgraded several related institutions due to industry concerns. **Citigroup** and **Bank of America** struggled to overcome ongoing issues, with the latter claiming excessive "pressures" by Bernanke's Fed in its **Merrill Lynch** acquisition. On the M&A front, a proposed **IBM/Sun Microsystems** deal fell apart at the last minute, though **Oracle** swooped in to bring Sun into its family fold. Earnings announcement remained dismal (for the most part) during the quarter though some bright spots (mainly among techs) brought renewed hope; **Thomson Reuters** even predicted growth for the 4th quarter and in 2010.

Energy prices resumed an upward climb, less on fundamentals and more on speculation that a rebounding global economy would increase demand for oil and other commodities. Crude pushed past \$70/barrel again, though remained far below last summer's levels. Gas prices climbed on over 50-consecutive days as strapped consumers faced new pressures at the pumps just in time for summer travel. As the quarter came to a close, investors understood that many "challenges" have yet to be resolved. Still, the general mood (and trend) seemed "friendlier" than it had been.

Economically Speaking...



When Bernanke talks, people listen...and these days, Dr. B. has been doing plenty of talking. Over the past year, the Federal Reserve, in conjunction with Treasury, created an alphabet of programs designed to reignite the economy, encourage bank lending, and offer greater consumer protection (while bailing out near-defunct institutions). During the quarter, the policymakers had opportunities to watch the fruits of their labor begin to pay some dividends (literally as well as figuratively). Over the past three months, Bernanke took many different tones (depending on the message and audience). He was *optimistic* when predicting that the economy would move beyond recession by year-end as the stimulus package aids in the efforts during the second half of the year. He was *cautious* when warning politicians that excessive borrowing will prove quite detrimental and Congress needs to work together to find ways to reduce the deficit. He was *poised* but *defiant* when proclaiming that he did nothing wrong in the days leading to the Bank of America/Merrill Lynch merger and did not apply any undue pressures as CEO Ken Lewis claims. From a policy standpoint, the Fed left rates unchanged at near 0% and provided additional liquidity to the financial system by buying treasuries and mortgage-related securities. For all of his efforts, Prez Obama remains uncertain about whether he plans to reappoint Dr. Bernanke for another term at the helm of the Fed (at a time when its supervisory role may grow dramatically).

Let's turn to the numbers. While GDP remained negative during the 1st quarter of the year, the two revisions revealed an economy not quite as bad as initially thought. (That is...if -5.5% is really significantly better than -6.1%). **Manufacturing:** While the ISM (Manu) index contracted again in May, sector activity has improved quite a bit since September 2008 and orders for durable goods even increased for two consecutive months. **Housing:** While buyers have begun dipping their feet back into the depressed real estate market (ever so slowly), many of the sales revolve around foreclosed properties. **Inflation:** Despite the recent uptick in oil and gas prices, most economists do not seem too worried about prospects for inflation (or deflation, for that matter). **Labor:** The unemployment rate climbed to a 25-year high and folks are quite concerned about their individual situations as over 6 million jobs have been lost since the recession began in late 2007. **Consumer:** Still the consumer rose from hibernation a bit as retail activity increased in May and one key confidence index climbed to its highest level since February 2008.

On the Horizon... While many economists agree with Bernanke's prediction that the recession will end by late 2009, most believe the recovery will be slow to develop and the jobless rate ultimately will exceed 10%. Analysts project 3rd quarter earnings will remain negative, though signs of a bounce-back in corporate activity could resume in the 4th quarter. Fears that a massive health care plan will add to the ballooning budget deficit raise more concerns about the strength of the dollar and future (foreign) demand for treasury securities. And, while investors clearly have been willing to assume a tad more risk, just how long will the "friendly" trend remain?

The information set forth was obtained from sources which we believe reliable but we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes a solicitation by us of the purchase or sale of any securities. Past performance is not a guarantee of future performance.