

Nauset Market Commentary First Quarter 2010

Market Performance Recap: Stocks Continue Uptrend

Stocks continued to rise in the opening quarter of 2010. A gain of +6.2% in the Dow Jones Total Market Index was driven primarily by mid and small cap stocks. As more evidence of a sustainable recovery was reported, investors shrugged off a dip in February and pushed stocks to an 18-month high. A rising dollar hurt international returns, which were flat at +0.2% per the MSCI EAFE Index. Bonds posted solid gains with the Barclays Intermed. Gov./Credit Index up +1.5% for the quarter.

Economic & Market Discussion: Will Higher Rates Choke Off the Recovery?

Interest rates – both in level and direction – are one of the key factors, along with earnings and stock valuations, that determine stock prices. The recent rise in 10-year Treasury yields to 4% has many investors worried that the nascent economic recovery will flatten out and send stocks down. We do not believe that will be the case.

Though our interest rate outlook for 2010 anticipated a rise in rates, we believe this is not an overly negative situation. The reasons are threefold: 1) rates are rising from an extremely low base, 2) inflation, a larger threat than rising rates, remains almost non-existent, and 3) rising interest rates also signal an expanding economy which is positive for stocks. So, we believe that the economy can continue to grow despite a modest rise in interest rates.

In summary, we continue to see opportunity in stocks in several sectors that have pent-up demand, such as tech and industrial infrastructure. Of course, headwinds exist in the economy, such as unemployment and the withdrawal of government stimulus, that may cause a stock correction in the short term. Even with that risk, we believe stocks will push past any temporary price consolidation and continue to be the most attractive asset class in 2010.

Market Performance Index	% Change for Periods Ended 3/31/2010				
	First Quarter	2010 Year-to-Date	1-Year	3-Year Annualized	5-Year Annualized
Dow Jones US Total Mkt.	6.24	6.24	52.88	-3.55	2.82
S&P 500	5.39	5.39	49.77	-4.17	1.92
MSCI EAFE – Non-US	0.22	0.22	49.99	-9.64	1.05
BarCap Intermediate Gov't/Credit Bond	1.54	1.54	6.92	5.88	5.16
BarCap Municipal Bond	1.25	1.25	9.69	4.56	4.58
3-Month T-Bill	0.02	0.02	0.13	1.80	2.76