

Nauset Market Commentary First Quarter 2011

Market Performance Recap: Stocks Post Gains amid World Crises

The Dow Jones Total Market Index rose +6.0% in the first quarter despite the Japanese quake and Middle East revolts. Energy and small cap stocks led returns as the US economy showed more signs of sustained expansion. Bonds continued to struggle as interest rates crept up on inflation and deficit concerns. Barclays Intermediate Gov/Credit Index finished ahead only +0.3% for the quarter.

Economic & Market Discussion: What Happens When QE2 Ends?

Investors are worried about the scheduled June stop of the Fed's second quantitative easing program (QE2). The concern is that if the Fed stops buying Treasuries, interest rates will spike higher and choke money flow to the economic recovery, thus sending stocks into a tailspin.

The Fed is walking a tricky line as it tries to both fight inflation and boost employment. Currently, its easy money policy is aiding job creation, while ignoring high commodity prices. When the accommodative policy stops in June, the Fed hopes that the nation's job engine is sufficiently primed to continue. While we agree that some concern is valid, we do not see a dire set of consequences resulting from the end of QE2.

We believe that the economy is on a self-sustaining track that can withstand the removal of the Fed prop of cheap money. Earnings continue to hit and exceed estimates and job growth is improving. We are more concerned that a continuation of easy money policies will lead to difficulties in managing inflation and the Federal deficit down the road. In summary, end QE2 and let the economy move forward on its own.

Our current equity strategy emphasizes select opportunities in high quality dividend stocks, and growth areas in industrials, tech, energy and emerging markets. Our fixed income stance remains defensive, favoring multi-sector bond funds, hedged fixed income, and floating rate bonds.

Market Performance Index	% Change for Periods Ended 3/31/2011			
	First Quarter	2011 Year-to-Date	3-Year Annualized	5-Year Annualized
Dow Jones US Total Mkt.	6.06	6.06	17.50	3.83
S&P 500	5.92	5.92	15.65	2.35
MSCI EAFE – Non-US	2.67	2.67	7.47	-5.83
BarCap Intermediate Gov't/Credit Bond	0.34	0.34	4.63	4.49
BarCap Municipal Bond	0.51	0.51	1.63	4.47
3-Month T-Bill	0.04	0.04	0.15	0.47