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**Date:** April 9, 2009  
**From:** Jonathan D. Weir, JD\*  
**To:** WFR Clients and Friends  
**Subject:** First Quarter 2009 Economic Trends

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World markets experienced continued volatility in the first quarter as investors continued to grapple with the effects of the worldwide credit crunch. Faced with uncertainty and the near freezing of some credit markets, consumers pulled back on spending. As a result, many companies had to adjust their sales and profit forecasts. As the economy continued to contract, many companies announced plans to cut jobs which further affected consumer confidence. Faced with this vicious circle of information, confidence dimmed. World equity markets gave back the rebound of December 2008. In early March the S&P 500, a widely followed index of U.S. stocks, declined back to the lows of 2008.

Unlike in the Great Depression, our government continues to intervene quickly and broadly. Actions have been taken to thaw credit markets and increase banks' willingness to extend credit. The Treasury has introduced massive bond repurchases designed to lower interest rates and inject much-needed capital into the economy. Programs have also been put into place to bring more liquidity to assets and strengthen balance sheets. We understand some of these programs may not work as planned and there may be unintended consequences, including inflation. However, the fact that the U.S. government recognizes the scope and severity of these problems and is willing to act on multiple fronts can provide a base for recovery.

As is often the case with investments, when things are good, they are not as good as they appear. Conversely, when things are bad, they might not be as dark as feared. Against the gloom of early March, some glimmers of resilience were revealed. The Commerce Department reported that consumer spending, which had been up in January, was weak but still positive in February.

The combination of government actions and a stronger than expected consumer set the stage for a broad rally. From the lows of early March, the S&P 500 rose over 20%. While we will likely have more volatility and challenges ahead, it is encouraging to see some positive signs emerge.

Domestic Equities: Given the breadth of the credit crisis, equities lost ground. The S&P 500 declined 11.0% for the quarter and was down a painful 38.1% for the trailing twelve months. Smaller stocks were not spared. The Russell 2500 index posted an 11.4% loss for the quarter and was down 38.2% for the trailing year.

International Equities: Foreign stocks also fell. The MSCI EAFE index, a measure of international developed markets, lost 13.9% for the quarter and 46.2% for the trailing year. Emerging markets did somewhat better posting a modest 1.0% gain for the quarter. For the trailing year, however, the loss was still a substantial 46.9%.

Fixed Income: Bonds provided a mixed bag of results. The Barclays Government Index lost 1.0% as the rush to Treasury securities faded. For the year, however, the index rose 7.0%. The Barclays Aggregate Bond index, a mix of government and non-government bonds eked out a 0.1% gain. For the trailing year it gained 3.1%. Treasury inflation-protected securities were the standouts for the quarter as investors feared a return of inflation. The TIPS index added 5.5%. For the trailing year, however, TIPS lost 2.0%.

Real Estate: Real estate, as an investment class, continues to be challenged. The industry is largely reliant on mortgage financing. As the ability to obtain and refinance debt has been greatly reduced, real estate has been under pressure. For the quarter, publicly traded REITs fell 33.9%. For the trailing year the loss was a bruising 60.7%.

The deleveraging of our financial system has been painful in many ways. Some of the effects will be temporary; others will be long-lasting. During times of extreme uncertainty it is tempting to listen to those with extreme positions and shrill voices. Our commitment is instead to use prudence and mathematical principles to help build your future. Our response to this crisis is not to shrink away and hope for the best. Instead, we will confront these challenges with discipline and strength. This, we believe, is the only way back.

I appreciate your confidence in me. I intend to continue to earn it. I will be talking with you soon to review your specific circumstances. In the meantime, please contact me with any questions or concerns you may have.

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