



Market Commentary

January 2010

At this time last year the markets were in a free fall in the wake of the financial crisis that had gripped Wall Street, Main Street, and the U.S. and global economy. It was in the first quarter of 2009 that the Dow touched its low of 6,400 amidst confusion, uncertainty and despair in the markets...a perfect environment for the recovery that unfolded for the balance of the year with the Dow reaching 10,500 at year-end. The first week of 2010, the Dow continued the rally, gaining 190 points or almost 2%—not a bad beginning. In fact, the first five days of the year can provide a reason for hope. Historically, 74% of the time if the Dow is up in the first week, the market will also finish up for the entire year. Before we get carried away with irrational exuberance, let's consider some of the issues before us as we begin the year and the new decade.

Three Important Trends

First, nothing will ever be the same. The economic crisis precipitated or accelerated change that was already underway in the economy, the workplace, political agendas and power structures. It is convenient and comfortable to see the last two years, and perhaps the next two years, as a protracted business cycle downturn that will inevitably turn positive. This perspective is not altogether wrong; the market's strong recovery in the last half of 2009 indicates better times ahead. For now, we are still working through the first part of 2009 when the market was expecting tough times. The stock market, with its unguided and unfiltered free market characteristics, is the most accurate predictor of future economic activity. But, the central point here is that we are in the midst of transition. Those who can see past the transition and not just endure it will emerge on the other side of it more prosperous and set to benefit from the new economic landscape. Companies that can innovate, even in a difficult environment, will prosper. Individuals who can educate and retrain themselves will be in a superior position. From a 401(k) perspective, we, as your investment advisors, look to provide investment choices and management that anticipates the emergent economy, and in the Aggressive, Moderate and Conservative portfolios, we look to be flexible in the asset allocation mix.

Second, the components of recovery for the economy will be slow in manifesting themselves because several important economic trends have not yet run their course. The stock market rally in recent months has keyed off the falling of the dollar. A weak dollar makes our goods and services cheaper to the rest of the world and hence benefits business, especially big international U.S.-based companies. This trend will continue until there are definite signs of recovery in the domestic economy. So far this is not happening. Interestingly, the stock market could continue to rise while the weak dollar trend continues, but could begin to fall when the weakening trend reaches its conclusion and the dollar begins to strengthen. Commodities like oil and gold are also correlated to the dollar. Therefore, oil is over \$80 per barrel not because of increased demand but because oil is denominated internationally in dollars. As the dollar loses its value, it takes more dollars to buy the same barrel of oil regardless of demand. Gold is over \$1,100 per ounce because of the same dynamic.

Third, unemployment remains at 10% and could rise. Many small businesses, especially retail businesses, probably tried to hang on through the holiday season but now will be forced to close their doors in a weak economy. Historically, January is the time to pay December's bills. Watch malls and strip shopping centers display even more "For Lease" signs in empty stores. This in turn will pressure commercial real estate with increasing vacancy rates. Employment is probably the most important thing to watch in the coming year. Jobs, as the politicians are fond of saying, must be created, as if they could will them into existence with their political charisma. Obviously, they are wrong. Jobs are created when real businesses grow and people are needed in the growing enterprise. Until this happens, and it could be a while, unemployment will not improve. The employment issue is not confined to the U.S. It is a global problem. European unemployment is at 15.7%.

Portfolio Management

We are pleased with the investment returns for the managed portfolios for last year. Both the Aggressive and Moderate Portfolios exceeded the return of the S&P 500, an important benchmark. The Conservative Portfolio, while trailing the S&P 500, recorded strong returns for a low-risk allocation. The portfolio allocations are available on the web site and can be used as a model or guide for the self-directed participant. In general, our perspective is increasingly cautious given the strong returns throughout most of 2009 and the market risks that are present now. We would encourage all participants to weigh carefully our view and your account allocations.

The Managed IRA Introduced

Lastly, we are pleased to introduce the Slavic Managed IRA platform. The IRA platform has only managed investment choices that mirror the Managed Portfolios of the 401(k) platform. The IRA platform will be available to employees who change employment and look to rollover their 401(k) balance to a similarly managed IRA account. Please see the accompanying brochure for its structure and details.

Thank You

Thank you for the privilege of engaging slavic401k for providing and managing your 401(k) account. Your 401(k) could be one of the most important benefits you have during your working life, especially considering the very uncertain future of Social Security benefits. Please logon to the web site for the voluminous resources that are available to you there, or call our customer service center where a representative can answer your questions and provide guidance for your specific circumstance and needs. We look forward to this New Year and the opportunity to grow your 401(k) assets, as you continue to save for the future.

To help achieve long-term retirement security, you should give careful consideration to the benefits of a well-balanced and diversified investment portfolio. Spreading your assets among different types of investments can help you achieve a favorable rate of return, while minimizing your overall risk of losing money. This is because market or other economic conditions that cause one category of assets, or one particular security, to perform very well often cause another asset category, or another particular security, to perform poorly. If you invest more than 20% of your retirement savings in any one company or industry, your savings may not be properly diversified. Although diversification is not a guarantee against loss, it is an effective strategy to help you manage investment risk.

In deciding how to invest your retirement savings, you should take into account all of your assets, including any retirement savings outside of the Plan. No single approach is right for everyone because individuals have different financial goals, different time horizons for meeting their goals, and different tolerances for risk, among other factors.

It is also important to periodically review your investment portfolio, your investment objectives, and the investment options under the Plan to help ensure that your retirement savings will meet your retirement goals.

Department of Labor information. For more information regarding individual investing and diversification, see the Internet web site of the U.S. Department of Labor at: www.dol.gov/ebsa/investing.html

These models are for illustration only, and returns do not represent actual participant returns or a reduction for plan expenses, which will reduce returns.

	Moderate Investor	Aggressive Investor
<u>Conservative Investor</u>		
Retire in Five Years or Less	Retire in Six to 20 Years	Retire in 20 Years or More
Target Return: 5% - 6%	Target Return: 7% - 8%	Target Return: 9% - 10%
Risk of Yearly Decline: -15%	Risk of Yearly Decline: -25%	Risk of Yearly Decline: -35%
<u>Model Asset Allocations</u>		
60% Bonds & Money Market	35% Bonds	10% Bonds
25% Domestic Stocks	35% Domestic Stocks	50% Domestic Stocks
25% Foreign Stocks	30% Foreign Stocks	40% Foreign Stocks