

Equity markets shrugged off a mountain of economic worries and posted their largest quarterly advance since 1999, reflecting growing optimism about the long-term outlook for corporate earnings growth. The rise came in spite of increased concerns over the debt crisis in Greece, Italy, Portugal and Spain and the domestic issues of historic budget deficits, healthcare reform and stubborn unemployment. For the quarter, the S&P 500 posted a total return of 5.39%. Investors who participated in the smaller capitalization sectors enjoyed even higher returns with the Russell Mid-Cap and Russell 2000 advancing 8.76% and 8.85% respectively. International markets generally lagged behind U.S. stocks during the quarter with the MSCI EAFE Index increasing a modest 0.22% and the MSCI Emerging Markets Index advancing 2.11%.

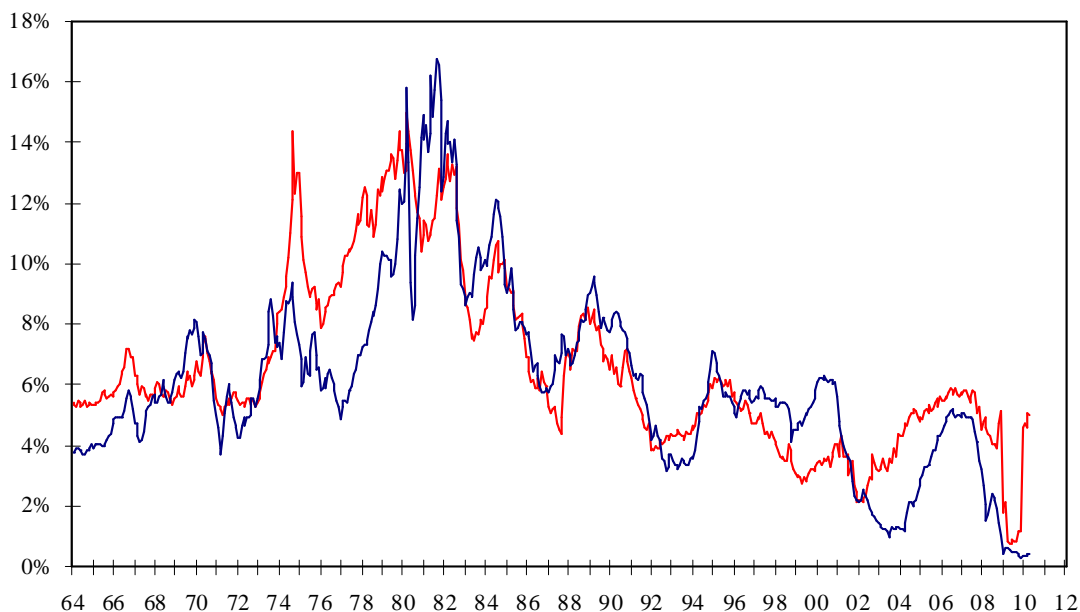
The market's performance is a reflection of improving corporate earnings driven by significant cost cutting over the past two years coupled with renewed top line growth. The improvement in revenue is being fueled by record fiscal and monetary stimulus and interest rates that remain at historically low levels. The result is a projected year over year increase of 110% for the earnings of the S&P 500 for the quarter ended March 31, 2010. The continuation of this trend will largely determine where equity prices are heading for the remainder of the year.

With stocks up 77% from the lows in March 2009, many investors are wondering if they have missed the boat to economic recovery. While a repeat performance over the next twelve months is unlikely to say the least, we think it would be a mistake for investors to assume the party for equities is over. The S&P 500 is still 23% below the high set back in October 2007.

S&P 500 (Operating Basis) (SPX)



The 2010 estimated earnings for the S&P 500 is currently \$62.09 implying an earnings yield on the S&P 500 of 5.20% versus yields of 3.85% and 0.45% on the 10-year U.S. Treasury and 1-year U.S. Treasury. A spread of that magnitude indicates that equities remain undervalued relative to fixed income alternatives.



Source: Stephens Capital Management

■ S&P 500 Earnings Yield      ■ 1 Year Treasury

If the Federal Reserve maintains its current stance on monetary stimulus for an “extended period” as they have indicated, we will remain constructive on the equity markets.

We will continue to monitor interest rates and their potential impact on stock prices. At some point, interest rates will move higher to reflect the improving economy and concerns over the Federal budget deficits which will provide a head-wind to future stock advances. Until then, the band plays on.

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Capital Management

## First Quarter Investment Review

By Brian Bush

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