



Teton Wealth Management, Inc.

Registered Investment Advisor

Market Recap – 2nd Quarter 2009

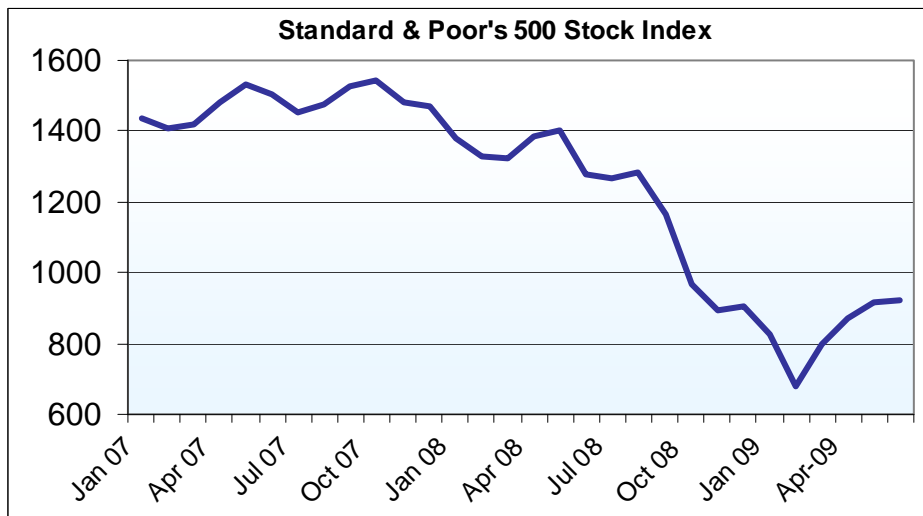
June 30, 2009

Investors reeling from a year of credit crisis and economic malaise recovered a measure of balance during the second quarter of 2009, and battered financial markets entered a season of relative calm after one of the most volatile periods in history. Yet investors were still waiting for concrete signs that the recession was waning, and mixed signals—about everything from unemployment and consumer spending to the likelihood of a future surge of inflation—combined to create an uncertain outlook for the economy and financial markets.

The Stock Market

The bullish mood that began in early March continued into early June, giving Wall Street its first positive quarter since late 2007 and the best three-month performance in years. The Dow Jones Industrial Average rallied 11.02% in raw terms (11.96% counting dividends), buoyed by the June 8 expulsion of both General Motors, which ended its 83-year tenure on the Dow after filing for bankruptcy protection, and beleaguered financial giant Citigroup. Networking equipment maker Cisco Systems and insurance carrier Travelers Companies replaced them as components of the 30-member Dow bellwether.

The Standard & Poor's 500 index had its best three-month return since 1998, ending the quarter up 15.22% in raw terms or 15.93% on an after-dividend basis. But the technology-heavy Nasdaq Composite did even better, rising 20.05% as hunger for technology shares—coveted in a credit-challenged environment, because many tech companies have large cash stakes and are likely to grow quickly as the economy recovers—continued throughout the quarter.



Just as the losses of the first quarter were nearly universal, the rebound embraced both growth- and value-oriented stocks from large and small companies. The prospect of a dawning economic expansion fueled demand for the smaller, growth-driven shares that often lead the market during the early stages of a growth cycle, and the small-cap Russell 2000 Growth Index was up 23.37%. Gains elsewhere were only slightly less spectacular, and were distributed with unusual consistency. The Russell 2000 Value Index, the large-cap Russell 1000 Growth Index, and the Russell 1000 Value Index climbed 17.97%, 16.32%, and 16.69%, respectively.

All 10 major industry groups also ended the quarter in positive territory. The beaten-down financial sector surged 35.08%, nearly overcoming the year's earlier losses as investors bet that government intervention had ended the risk of widespread bank failures. Technology shares ended the quarter up 19.35%, while most other economically sensitive

sectors bounced by from 10% to 18%. Only the normally defensive sectors lagged, with telecommunications companies delivering the smallest advance, of just 1.90%.

But the recession continued to take a toll on corporate earnings. Companies listed in the S&P 500 saw year-over-year profits decline another 33% on average during the first quarter, and analysts expected a similar drop when second-quarter earnings are made public this summer. Rising costs are likely to mean drastically lower profits for producers of energy and raw materials, and even sectors such as health care, which normally hold up well during downturns, were expected to be vulnerable.

Still, investors have been gratified by indications that the economy may be bottoming out, and after eight quarters of worsening earnings—the longest decline in at least a decade—profit numbers that normally would be considered disappointing have been greeted with indifference or even cautious applause.

Profit-starved companies reduced dividend payments to conserve cash for near-term survival. Half of the members of the S&P 500 slashed their regular cash distributions during the second quarter, making it the second worst ever for dividends. Companies also scaled back offers to reward investors by buying back shares, while a record number of secondary stock offerings raised \$91 billion but diluted the value of current shareholders' stakes.

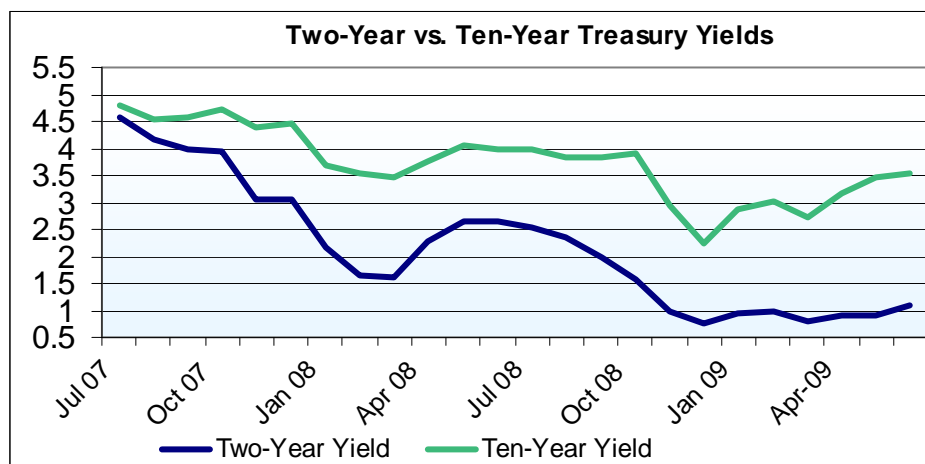
Foreign equities also gained, with the MSCI EAFE Index (which tracks the developed markets of Europe, Australia, and the Far East) climbing 15.36% in local currency terms, or 25.85% when repatriated into dollars for U.S. investors. Several national markets that had racked up severe losses in 2008 rallied during the second quarter, with stocks in India soaring 50.44% and Chinese shares leaping 33.34% on a local-currency basis.

The Bond Market

The specter of future inflation didn't help the bond market, where investors who had flocked to the safety of Treasury debt were already chafing at having to accept the lowest yields on record. Faced with even the slightest odds that inflation would erode the buying power of scant fixed returns, many investors were willing to shift to riskier assets in the hope of finding richer potential rewards.

Foreign investors in particular lost their taste for Treasury bonds during a time of huge stimulus spending. With \$2 trillion in new Treasury-backed securities likely to hit the market this year, officials from Russia, Brazil, and China—which, with India, account for a third of all Treasury debt in foreign portfolios—groused about the long-term viability of dollar-denominated debt, and Japan and other long-time Treasury buyers reduced their holdings.

Treasury bonds delivered a 3.1% loss in the second quarter, while high-rated corporate bonds, which had fallen from favor amid worries about bankruptcies, gained ground with a total return of 11%. But rising demand for non-Treasury debt pushed down the associated yields (bond prices and yields move in opposite directions) and the "spread" or gap between Treasury and corporate yields narrowed significantly.

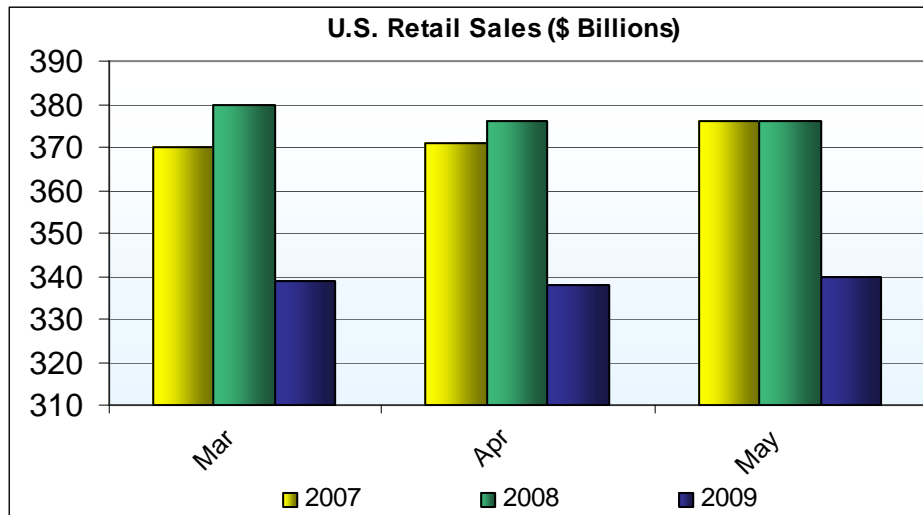


But defaults on the riskiest corporate debt—known as high yield or junk—soared, with 8% of such issuers failing to make good on their obligations in May and Standard & Poor's predicting that adverse economic conditions could push that rate above 14% by early next year. Municipal bonds also suffered as the recession took a toll on state and local budgets;

bonds from California, which teetered on the edge of insolvency as the quarter ended, proved especially vulnerable to credit downgrades.

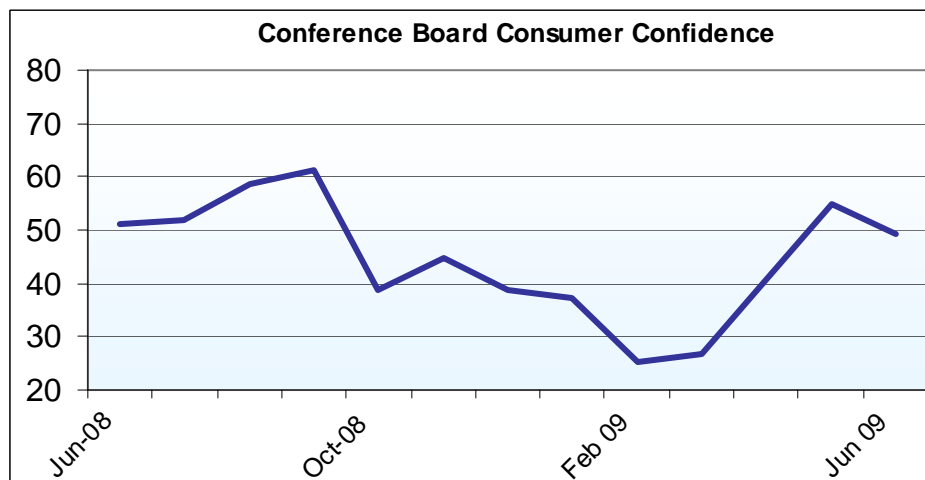
The Economy

Federal Reserve Chairman Ben Bernanke and his fellow government bankers continued to do what they could to calm credit markets and revive economic activity. With the Fed's short-term interest rate targets stuck near zero for the foreseeable future, monetary policy shifted to unorthodox measures such as a promise to buy up to \$300 billion in government debt before the end of the third quarter (\$190 billion had been spent by late June). Yet the economy continued to contract, though at a slowing rate. Gross domestic product (GDP), the broadest gauge of the economy's overall health, shrank at an annualized rate of 5.5% during the first quarter. The recession that began in December 2007 has become the longest downturn since World War II, and economists were reluctant to predict a return to growth before the third quarter.



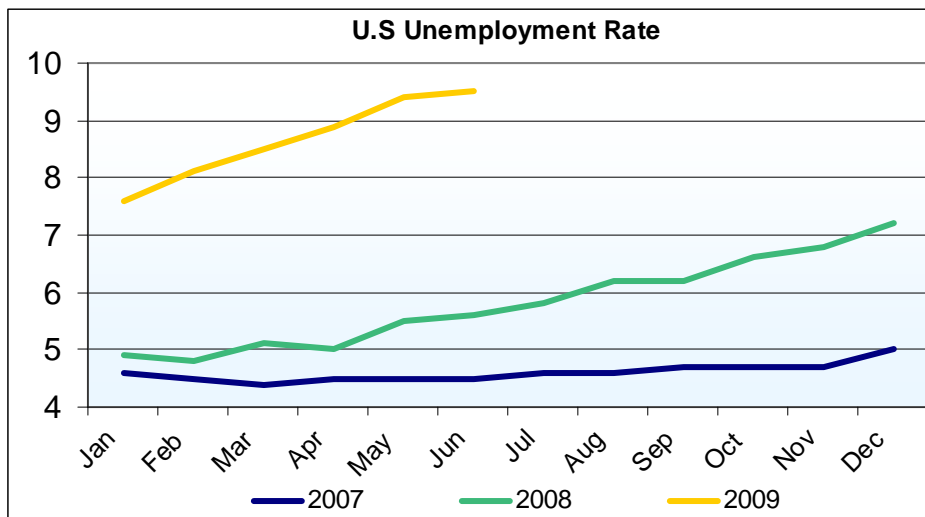
Household spending, the central driver of the U.S. economy, showed "signs of stabilizing" during the quarter, according to the Fed's monetary policy committee. But while consumer activity stopped deteriorating as payroll tax rebates made their way into Americans' pockets, people remained extremely reluctant to buy. Discretionary purchases dropped during the quarter, and even necessary expenditures on groceries and other staples were flat at best. By mid-quarter, retail spending was down 10.2% from the robust \$376 billion recorded 12 months earlier, and at \$339 billion was roughly where it had been in 2005.

Consumer confidence strengthened throughout much of the spring, thanks largely to hopes that government stimulus and strengthening financial markets would restore the economy to health. But confidence then took another dip, with relatively bright long-term expectations weighed down by a lack of near-term improvement in job and housing markets.



Labor market news remained dismal, with U.S. businesses eliminating another 1.3 million payroll positions during the quarter. And though there seemed to be fewer mass layoffs, job loss reports continued to worsen from month to month, leading to fears that any recovery would be very slow to arrive.

By the end of June, 6.6 million jobs had been destroyed, and the broad-based unemployment rate crept to a new 26-year high of 9.5%. In several states—including budget-strained California and Michigan, the center of the faltering automobile industry—the jobless rate had already reached double digits. With the exception of the health care industry, all major sectors suffered deep employment losses. Manufacturing, construction, retail, financial services, and even temporary staffing firms were especially hard hit.



Many workers kept their jobs but had to accept shorter hours, involuntary vacations, or other concessions. The average workweek dipped to 33 hours by the end of the quarter, lower than during any other time since at least 1964. And while hourly earnings continued to climb at normal rates, weekly salaries edged up just 0.9%.

Yet while worst-case scenarios for the economy haven't come to pass, the growing optimism that prevailed early in the second quarter has ebbed, and concrete evidence of a true economic recovery remains elusive. Many challenges—the stagnant housing market, rising mortgage rates, tightening consumer credit, health care worries, and the dismal employment situation, among others—are still on the table, and the nation remains in the grip of the fiercest recession in at least a generation. But sooner or later, patient investors will see that recession come to an end.

Richard Bloom, CFP – July 15, 2009

Performance Indices

Asset Class	Index	2Q09	YTD	1-year	3-year annualized	5-year annualized
Large Cap US Equities	S&P 500	15.93%	3.16%	-26.22%	-8.22%	-2.25%
Small Cap US Equities	Russell 2000	20.69%	2.64%	-25.01%	-9.89%	-1.71%
International Equities	MSCI EAFE	25.85%	8.42%	-30.96%	-7.51%	2.79%
Emerging Markets	MSCI EM	34.84%	36.22%	-27.82%	3.27%	15.09%
Fixed Income - Taxable	BC Aggregate Bond	1.68%	2.61%	6.78%	6.67%	5.16%
Municipal Bonds	BC Municipal Bond	2.11%	6.42%	3.78%	3.90%	4.14%
Real Estate - REIT	US: REIT - MF	30.06%	-3.53%	-38.49%	-16.44%	-1.58%
Alternative	60% S&P 40% BC Bond	10.18%	3.06%	-13.90%	-2.20%	0.89%