



Teton Wealth Management, Inc.

Registered Investment Advisor

Market Recap – 1st Quarter 2011

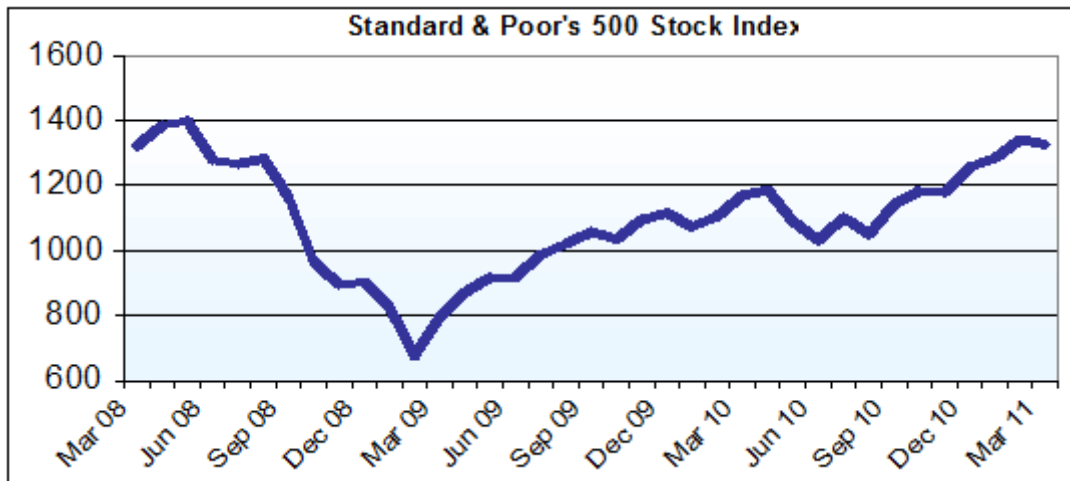
March 31, 2011

The expansive economic sentiment that dominated U.S. financial markets during the closing weeks of 2010 persisted through much of the first three months of 2011. However, mid-quarter events overseas, including revolutionary upheaval in North Africa and natural disaster in Japan, pushed oil prices higher and raised new questions about global and domestic growth.

US Equity Markets

U.S. share prices continued their post-election rally through the middle of February, raising major benchmarks to their highest levels since mid-2008. Although foreign turmoil then diverted investors' attention from the domestic economy, equities had largely resumed their advances by quarter's end.

The Dow Jones Industrial Average, which tracks the performance of shares in 30 top U.S. corporations, gained 6.41% during the quarter, or 7.07% counting dividend payments. The broader market, as represented by the Standard & Poor's 500 stock index, surged 5.42% in raw index terms, or 5.92% after dividends. The technology-rich Nasdaq Composite, stung by concerns about disruptions to many companies' Asian component suppliers, lagged with a 4.83% increase during the quarter.



While these gains weren't particularly extraordinary, they capped robust 12-month performances by all three indices. The biggest advance belonged to the S&P 500, which ended the quarter 15.65% higher for the past year, compared with a historical average annualized return of 9.90% during the previous 85 years.

Two years into the bull market that began in March 2009, the Dow industrials ended the quarter just 13% below the all-time peak touched in October 2007, having advanced 88% from post-credit-crunch lows. Likewise, the S&P 500 closed the quarter 15% off its 2007 record high and up 96% from its 2008 trough. Yet while the Nasdaq has soared 119% during the past two years, rising to within just 2.4% of its 2007 high, it remains far below the pinnacle (5,048 on March 10, 2000) it scaled at the height of the dot-com mania.

U.S. corporate profits continued to rise, though at a decelerating pace. During the first quarter, companies in the S&P 500 reported an average 27% improvement in fourth-quarter 2010 earnings, exactly in line with the expectations of analysts who now predict a further slowing in profit growth during the opening months of 2011.

Global Equity Markets

Though many analysts had expected this to be another banner year for emerging markets, during the first quarter many investors moved money out of developing nations and into the reviving economies of North America and Western Europe. Following Japan's disaster and the eurozone's credit problems that returned during the quarter's final weeks, the U.S. market emerged as a big winner. In contrast to strong gains in American markets, the MSCI EAFE Index, a leading gauge of blue chip stocks in the developed markets of Europe, Australasia, and the Far East, edged up only 1.07% on a local currency basis, or 3.45% when the gains were translated back into U.S. dollars.

The industrial superpowers of Western Europe fared well, with German stocks surging 7.57% and French stocks up 10.58%, while the bruised markets of Spain and Italy rebounded 13.80% and 13.77%, respectively. But Japan—still the world's third-biggest economy—sank 4.85%. Among emerging markets, commodity producers were led by countries such as oil-rich Russia, whose stocks climbed 16.29% during the quarter. However, regions closely tied to Japan faltered, with Chinese stocks appreciating only 2.88%. Egypt, one of the most mature capitalist economies in the revolution-wracked Arab world, saw its market plunge 23.23%.

The weaker dollar provided natural support for commodity prices, which are quoted in U.S. currency and so are higher when it takes more dollars to buy a barrel of oil or a bushel of corn. At the same time, investors flocked to commodities to hedge against inflation and geopolitical risk and the widely quoted CRB commodity index ended the quarter up 8%. Early in the quarter, grain and other agricultural products led the way as demand for food surged in booming emerging markets—including Egypt, which is one of the world's leading grain importers. In fact, high food prices helped fuel political upheavals in North Africa.

But food took a back seat to fuel once it became clear revolutionary forces might cut Middle Eastern oil transport lines or destabilize the export regimes of the Persian Gulf. Questions about the viability of nuclear power as an energy alternative in the wake of the Japanese catastrophes further heightened oil's attraction, and by quarter's end, the price of a barrel of crude was back above the psychologically crucial \$100 level in the U.S. In Europe, which relies more heavily on Libyan oil and natural gas, the shock of supply disruptions was yet more intense, with the Europe-focused Brent grade of petroleum soaring nearly 24% to close the quarter at \$117.36.

The Bond Market

With benchmark interest rates at record lows and the Federal Reserve buying a reported \$6 billion to \$8 billion in government debt every day, Treasury yields remained too low to appeal to income-hungry investors, and U.S. bonds lost ground during the quarter. Corporate debt fared better.

Fed chair Ben Bernanke and his colleagues on the Federal Open Market Committee, still concerned about the pace of economic recovery, kept their target for overnight interest rates at an effective level of zero. However, the Fed's policy statements became appreciably less gloomy. In January, for example, Bernanke and company described the economic recovery as "insufficient," but a March statement noted "gradual improvement." That change in tone could eventually lead the Fed to focus on the risk of inflation, though for now, at least, it expects to keep short-term interest rates exceptionally low. But the current campaign of depressing long-term interest rates via quantitative easing—the \$600 billion bond-buying program known as "QE II"—is widely anticipated to end as scheduled on June 30. With the Fed no longer an active participant in the Treasury market, bond prices and yields will then again be left to rise and fall in accord with normal supply and demand.

As represented by the Bank of America Merrill Lynch government bond index, the total return on Treasury securities delivered a rare loss of 0.14% during the first quarter. Though the Fed's intervention helped support prices, it also kept yields artificially low, and investors fretted about a rising threat of inflation that could hurt bonds.

Many investors sought higher yields in the booming corporate bond market, in which U.S. companies raised a near-record \$356 billion. Yet despite an effective yield for high-grade corporate securities of 4% during the quarter, rising demand depressed prices, leaving those bonds with a net return of only 0.8%. High-yield ("junk") bonds issued by companies with lower credit ratings continued to pay significantly higher yields, and a representative portfolio of those bonds ended the quarter with a 3.9% total return.

Despite broad concerns about the health of the municipal bond market, the number of defaults declined by half compared with the preceding three months, and issuers that did fail to meet their obligations tended to be at the smaller and less stringently regulated end of the scale of muni offerings.

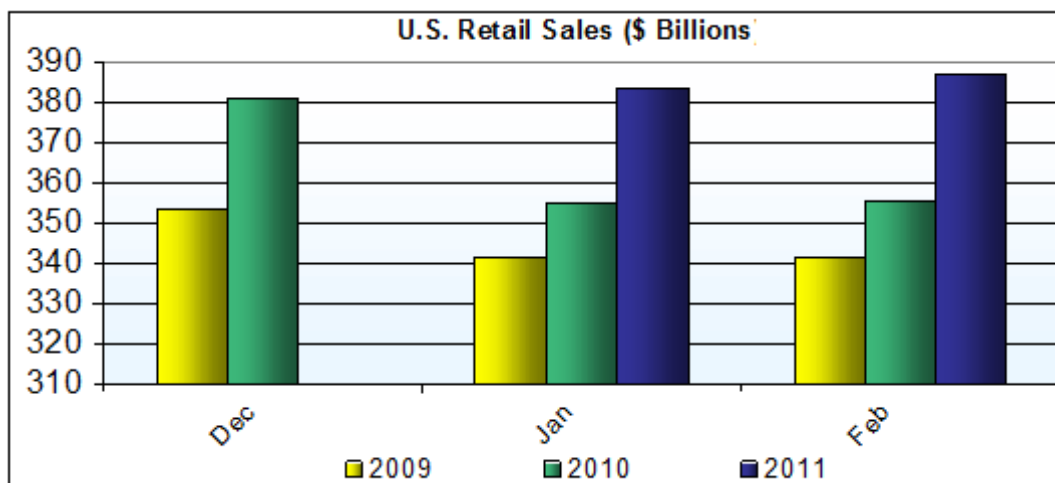
The Economy

As Ben Bernanke and his fellow government bankers indicated in their public statements, signs of economic recovery multiplied during the first quarter. Industrial activity ramped up and even the long-battered labor market showed signs of life. While problem areas remained, some economists believe the U.S. economy may finally be on the verge of weaning itself from high levels of government support.

Gross domestic product, the widest gauge of U.S. economic strength, expanded at an annualized rate of 3.1% during the fourth quarter, about in line with expectations. While higher oil prices may have eaten into growth during the first quarter, that won't become clear until the final numbers are released during the next few months. As March came to an end, economists suspected GDP was still growing at around 2.7%, the same as during the third quarter of 2010 and safely above any slide back toward recession.

Retail Sales

A 4% increase in personal consumption accelerated GDP growth in late 2010, and during the first quarter, it became clear U.S. households were once again spending at a record pace. Retail sales touched a new peak of \$387 billion in February, reflecting a 15% increase since bottoming out at \$336 billion in March 2009. In part, that rise reflected growing confidence among consumers—who, for example, finally felt good enough about their financial situations and the housing markets to resume home renovations, thus boosting the fortunes of building supply stores. Yet some of the spending increase was attributable to a less-welcome development—surging fuel costs that meant paying more than \$3.65 a gallon for gasoline by late March and outlays at gas stations that soared 12.8% on a year-over-year basis.

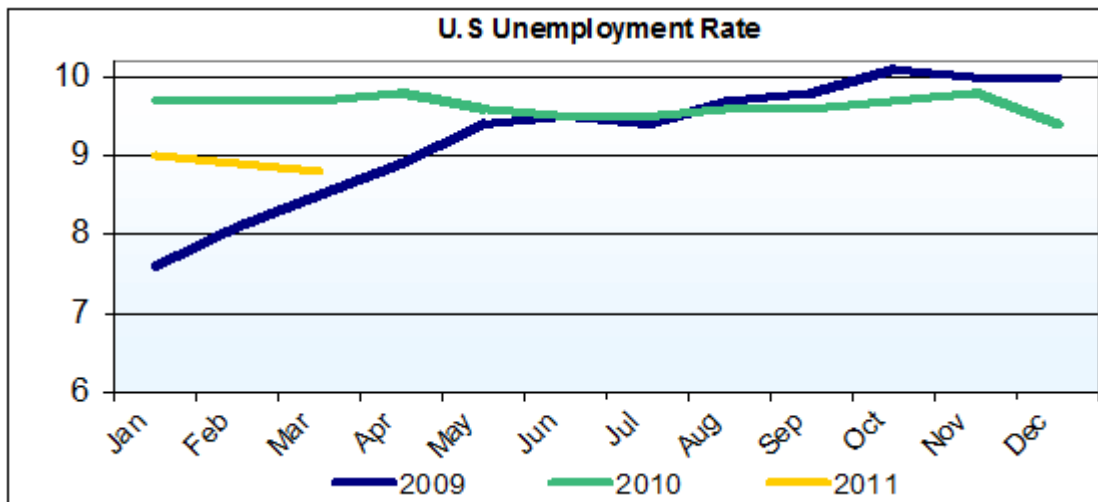


Consumer Confidence

In February, consumer confidence (as tracked by the Conference Board) surged to a high of 72, the best reading in three years. And though oil prices and geopolitical angst then darkened consumers' outlook somewhat, American families remained optimistic about domestic business conditions while expressing frustration about the job market.

Unemployment

U.S. companies created a net 478,000 new positions during the first quarter, again hiring at a reasonable pace after years of massive layoffs. Yet while the unemployment rate sank to a two-year low of 8.8% during the quarter, there remained 7.2 million fewer jobs in March 2011 than there were in February 2008.



Inflation

Long dormant, inflation returned during the first quarter as customers began to feel the effects of rising commodity prices. In February, consumer prices edged up 2.1% on an annualized basis—well below a historical average of 3%, but high enough to give economists pause. Subtracting food and energy costs (largely tied to volatile commodity markets rather than to consumer demand), prices inched up 1.1%, as health care, transportation, and even shelter became more expensive.

Summary/Outlook

The long, painful recession that officially began in December 2007 and ended in June 2009 is now receding into memory for many people, though for others the trauma lingers. Housing remains a sore spot, while the labor market has a long way to go. Meanwhile, the first quarter of 2011 ended with the U.S. economy growing at a significant rate, a bull market entering a third year of gains marred by few significant interruptions, and major equity benchmarks within sight of all-time records. As the Federal Reserve shifts from an emergency stance and looks toward the once-remote prospect of inflation, investors also may need to shift to confront a new set of challenges—and to exploit new opportunities.

Richard Bloom, CFP – April 12, 2011

Performance Indices

Asset Class	Index	1Q11	1-year	3-year annualized	5-year annualized
Large Cap US Equities	S&P 500	5.92%	15.65%	2.36%	2.63%
Small Cap US Equities	Russell 2000	7.94%	25.79%	8.57%	3.35%
International Equities	MSCI EAFE	3.45%	10.90%	-2.53%	1.78%
Emerging Markets	MSCI EM	2.10%	18.78%	4.62%	11.01%
Fixed Income - Taxable	BC Aggregate Bond	0.48%	4.76%	5.09%	5.91%
Municipal Bonds	BC Municipal Bond	0.51%	1.10%	4.29%	4.04%
Multi-Strategy	60% S&P 40% BC Bond	3.70%	11.73%	4.08%	4.36%