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## **Market and economy continue in uptrend**

Client Newsletter  
Quarter Ending March 31, 2012

For the first quarter of 2012, markets showed strong growth. The S&P returned 12.6% for the quarter, 8.5% from the same time a year ago. The Dow was up 8.1% for the quarter, 7.2% from a year ago, and the NASDAQ up 18.7%, 11.2% from a year earlier. Volumes however, were light, not what an investor would want to see. NYSE volume was the lowest since 4Q 2007, and down 14.5% from a year ago as investors remained cautious. The DJ world, excluding the U.S. was up 10.8% demonstrating that despite all the news, growth outside the U.S. was strongest, with Emerging markets showing particular strength.

The strength in the U.S market was a reflection of the gains in the U.S. economy. While GDP growth in the fourth quarter of 2011 was slightly below expectations, nevertheless the growth was a revised 3.0%. January 2012 Personal spending rose .4%, followed by February .8%, however some of the spending increase came from higher energy prices which rose 3.6% in February alone, the largest gain in a year. Federal Reserve officials, acknowledged that the increase in fuel costs would "push up inflation temporarily", but anticipated that prices would return to their long term target. The core PCE index which excludes food and energy prices moved up 1.95 year over year in February after moving up .1% in January. These numbers are within the Feds target range.

Personal saving fell to 3.7% from 4.3% in the prior month. A lower savings rate could be a sign of higher consumer confidence, and indeed a separate report showed that consumer confidence jumped to its highest level in more than a year. The Thompson Reuters/University of Michigan consumer sentiment index measure 76.2 the best reading since February 2011.

The ISM index was 53.4 up from 52.4 in the prior month. Europe rose on the strength of the U.S. numbers.

Existing home sales are showing a slight uptick with the shadow inventory of homes in foreclosure and delinquent, declining.

Globally concerns linger over the European sovereign debt crisis. A temporary fix is in place, but for how long? Even Germany has joined the call for higher fire walls to protect the Euro zone. Meanwhile German unemployment reached its lowest level since 1990. Domestic demand has increased strongly as Germany bounces back on the strength of its export led economy.

Investment in equipment and buildings has also risen. Germany remains the bright spot in Europe as much of Europe remains weak.

Decelerating growth in China is weighing on Asia, although we believe that Asia and some emerging markets offer investment opportunities.

The high price of oil will continue to be a drag on not only our domestic, but on the global economy. The International Energy Agency warned that the high price of oil was overtaking the sovereign debt crisis as the biggest problem in the European Union. The price of oil is expected to remain high and perhaps move higher, particularly with the continuing problems in the Middle East.

Domestically the spot light is moving to the political arena. With the Democratic candidate fixed, the Republicans are finally focusing on Romney as their standard bearer. As of this writing President Obama appears to be headed for reelection, but it is a long way to November. The Republicans may win the congress.

President Obama's signature issue, health care is currently the subject of argument before the U.S. Supreme Court. The court set aside three days for arguments. The principal focus is the mandated health insurance provision. The secondary argument is, if the health insurance provision fails, must the entire act fail too? The Court appears nearly evenly divided with Justice Kennedy the likely swing vote in a likely 5-4 decision. Justice Kennedy seems to be telegraphing hostility to the mandate based upon his notions of how far government can regulate the lives of individuals. Government lawyers argue that the Commerce Clause of the constitution gives them that power, and have strong precedents to back them up. But the justices appear skeptical, one justice asking if one can be required to buy insurance can people be required to buy certain kinds of food. Whatever the outcome, it will be a landmark decision in the law with extensive consequences for the future of government power and regulation.

We are in the midst of earning season, and it has been a good, if not great, season. Over 85% of companies that have reported are beating expectations. Earnings growth has continued to accelerate throughout the season thus far. Earnings growth was initially expected to be in the low single digits, but has surpassed the six percent growth mark and is rising. Many companies have announced dividend increases, or buyback as companies do not find another use for their extensive cash hoard.

Many imponderables hang over the markets, not the least of which is the scheduled expiration of the Bush tax cuts. The U.S. markets, at least, show their resilience to the global downturn and worries, in contrast to other regions. We expect this year to end on a higher note.

As always, it is our pleasure to manage your portfolios. Thank you for the confidence that you place in us. If you have any questions, please do not hesitate to contact us.

Best personal regards,

***William D. Rutherford, President***  
*Rutherford Investment Management LLC.*

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