



N E X T  
G E N E R A T I O N  
W E A L T H M A N A G E M E N T

## NG Wealth Market Commentary 1st Quarter, 2010

Despite periods of volatility, the equity markets ended the first quarter of the new decade with positive returns. The Dow Jones Industrial Average and the S&P 500 Index returned 4.11% and 4.87%, respectively, while the MSCI EAFE Index edged up 0.22%. These were the strongest first quarter returns since 1999 for the Dow Jones Industrial Average and it was the strongest quarter for the S&P 500 since 1998. As mentioned above, the international markets were positive as well, although the returns failed to keep pace with U.S. markets, due in part to the strength in the U.S. dollar.

During the early part of the first quarter, the global financial markets reacted negatively to several items of concern, including: a lower probability of a V-shaped economic recovery, new financial regulation proposals from the Obama Administration, and concerns over a potential economic slow-down in China. In addition, the investment community debated concerns about the high levels of U.S. and European debt, especially Greek sovereign debt, weaker consumer sentiment, and the challenging high unemployment rates.

In a relatively decisive manner, the financial markets recouped these losses and moved higher with a rapid rebound. Investors were increasingly more confident in the global recovery as positive economic data was released throughout the quarter. Adding to this optimism was Chairman Bernanke's reiteration that the federal funds rate, currently targeted at 0% to 0.25%, would remain at low levels for an extended period.

### ECONOMIC SCORECARD

We believe we are close to reaching a self-sustaining economic recovery, albeit slow. The broad array of economic indicators were increasingly positive during the first quarter which was a significant change from the prior year. That said, there were some mixed signals and several structural headwinds that will continue to present challenges to the global recovery.

One such indicator to measure economic activity is the Gross Domestic Product (GDP), which has been positive for the past two quarters and was revised to reflect a 5.6% annualized growth rate for the fourth quarter of 2009. To put this figure into perspective, five of the previous six quarters had shown a negative growth rate.

IT'S NOT ABOUT PREDICTING THE FUTURE.  
IT'S ABOUT PREPARING FOR IT.



Another indicator we monitor closely is the job market, specifically unemployment levels. The U.S. economy has been eliminating fewer jobs recently, as evidenced by the weekly unemployment claims which have indicated that fewer individuals have joined the unemployed category. The challenge to us remains job creation—the unemployment rate was 9.7% - which is simply too high for a sustainable, economic recovery.

### THE DEBT SITUATION

The United States has entered a phase of historical deficit spending, accruing some of the largest deficits on record. The fiscal 2010 budget deficit is projected at \$1.75 trillion dollars, which amounts to more than 10 percent of the Gross Domestic Product of \$14.6 trillion. This number is staggering in and of itself, not to mention that it is on top of our national debt of \$12.6 trillion. Although the government is comfortable talking in trillions of dollars, many Americans, including our team at NG Wealth, are concerned that this excessive debt burden will greatly slow down the economy as we move forward.

The U.S. government must finance all of its deficit spending—and its financing needs are substantial. The extended period of low interest rates has been extremely beneficial to the government efforts of refinancing the outstanding debt and future deficit spending. This may be one of the reasons the Federal Reserve Board will maintain a low interest rate policy for an extended period of time.

### AN UPDATE ON CORPORATE AMERICA

U.S. corporations continued to stockpile cash and contain their costs, a trend that began in 2009 and will continue throughout this year. The cash on corporate balance sheets is rapidly approaching one trillion dollars, which is a level that is close to 50% higher than the historical averages. Many of the strong companies that exited the latest recession are even stronger today and are looking to be opportunistic. In our opinion, these large cash balances will be used for mergers and acquisitions and will take advantage of attractively priced and distressed asset sales that may present themselves. There has been a renewed interest in merger activity during the first quarter and we believe this activity is likely to pick up as the year progresses.



We maintain that corporate earnings will be strong for the first half of 2010. Furthermore, the current price to earnings ratio of the S&P 500 Index is in-line with historical averages and should provide a level of comfort for investors. That said, the rapid rise in earnings estimates from Wall Street analysts gives us pause as the financial markets are leaving investors with less margin for error in the event that a recovery does not materialize.

### HEALTH CARE REFORM

Capturing the headlines and much of the media in the first quarter was not the financial markets, but the historic passage of the \$940 billion Health Care Reform Act. This landmark bill was passed by a legislative technicality known as reconciliation, given that both houses lacked the votes to approve it by the normally required majorities. There has been much skepticism among politicians and individuals alike concerning the details, and final poll numbers show a country divided over acceptance of the new law.

The financial markets are paying particularly close attention to the bill because of its massive cost and the potential impact of the front-loaded spending on our already bloated deficit. After passage of the bill, the fixed income markets reacted negatively. This reaction, while short-term and immediate, was significant as it may shape the interest rate outlook moving forward, given the massive amount of debt that the government must bring to the financial markets in an attempt to satisfy budget needs.

### INTEREST RATE OUTLOOK

Unfortunately, there is not a crystal ball to predict the future direction of interest rates. Using history as our guide, there has been a likelihood for interest rates to rise when budget deficits are higher since governments need to issue more debt to finance their obligations.

We do not believe higher interest rates are neither immediate nor imminent for several reasons - high unemployment, low capacity utilization and a lack of wage growth. The budget deficit is a concern to us, however, there are many other factors that can influence the level of interest rates. Some of these factors are - short-term interest rates, the demand for fixed income versus supply and to some extent, long-term interest rates.



Our team, along with the investment committee, feel it is important to keep these issues in the proper context when analyzing the deficits and the relationship to interest rates. After all, the exact timing of predicting when interest rates will rise is a very difficult task.

### THE STATE OF THE CONSUMER

From our perspective, consumers continue to be constrained, although there have been steady improvements in the personal savings rate as well as an aggressive focus on debt reduction. Despite consumers repairing their personal balance sheets, the Consumer Confidence figures were still largely weak as the U.S. unemployment increased in 27 states and the national unemployment remained at 9.7%.

This stubbornly high unemployment rate and the potential threat of another decline in the housing market continues to present a challenge to the long-term recovery of the consumer. For example, consider the following:

- U.S. mortgage delinquencies, excluding foreclosures, hit a record high of 9.8% in January, a 21% increase from a year earlier (January 2009).
- During February, new permits and housing starts were negative, while the median cost of existing homes decreased to May 2002 levels.
- Foreclosures are expected to climb to 4.5 million in 2010 from 2.8 million in 2009.

It is for these reasons that we believe another decline in the housing market is a possibility once mortgage debt purchases and the government tax credits for homebuyers expire. In an effort to confront the troubled housing market, the Obama Administration has proposed programs that are designed to help homeowners avoid foreclosure using funds from the \$700 billion Troubled Asset Relief Program.



## CONCLUSION

There will continue to be fallout from this credit crisis. The crisis was not created over a short period of time, and therefore, it cannot be resolved in a short period of time. At Next Generation Wealth Management, we will continue to be disciplined and exercise patience. Our current investment strategies are globally diversified with an emphasis on understanding that minimizing investment risks is as critical as maximizing investment returns.

If you would like to learn more about our investment outlook, please contact us directly at (414) 257-4248 and one of our experienced team members would be glad to speak with you. Or, if you prefer, you may visit our website at [www.ngwealth.com](http://www.ngwealth.com).

We are honored to be a fiduciary partner for your wealth management strategies.

Sincerely,

David A. Massart  
President

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