

Stocks continued to move higher early in 2011, helping the S&P 500 post its best 1st quarter return since 1998. Corporate earnings reports again came in better than expected and were the main driver of equity returns, overshadowing the earthquake and tsunami in Japan as well as unrest in the Middle East and North Africa.

The unemployment rate ticked down to a 2-year low of 8.8% as job growth picked up as the quarter went on. The combination of strong corporate earnings and the improving economic data helped investor sentiment towards the stock market. Data from the Investment Company Institute showed domestic equity funds had net inflows in the first quarter, a reversal from the outflow seen in each quarter of 2010.

All economic sectors of the stock market produced gains in the 1st quarter, led by the energy sector. Energy stocks traded sharply higher, benefiting from the 17% rise in oil prices during the quarter. Industrial stocks also continued their rally, as money seemed to flow into cyclical names that will benefit from the improving economy.

While the stock market has moved higher, we still believe stocks can produce further gains as the year goes on. Valuations are off recent lows but nowhere near the overbought levels of the late 1990's. Corporate earnings should continue to grow and balance sheets remain strong. Dividend payments in the first quarter from S&P 500 companies grew the most in 4 years, a trend that investors can expect to continue throughout the year.

Return of Various Market Indices								S&P 500 Economic Sector Returns		
Index	Last Month	Last Quarter	Year-to-Date	Data as of: March-2011 [periods > 1 year annualized]				Wgt.	Sector	YTD Return
				1 Year	3 Year	5 year	10 Year			
3-Mo US T-Bills (Cash)	0.01%	0.03%	0.03%	0.14%	0.44%	2.03%	2.05%	12.6%	Energy	16.82%
Barclays 1-3 Year Gov't Bonds	-0.03%	0.06%	0.06%	1.73%	2.48%	4.24%	3.79%	11.1%	Industrial	8.73%
Barclays Gov't/Corp Bonds	-0.03%	0.28%	0.28%	5.26%	4.82%	5.83%	5.53%	10.8%	Health Care	5.66%
Dow Jones Industrial Average	0.91%	7.07%	7.07%	16.51%	3.12%	4.87%	4.73%	3.0%	Telecomm	4.86%
DJ Wilshire 5000	0.39%	6.06%	6.06%	17.50%	3.83%	3.27%	4.62%	10.5%	Consumer Discr.	4.71%
S&P 500 Composite	0.04%	5.92%	5.92%	15.65%	2.35%	2.62%	3.29%	3.7%	Materials	4.54%
S&P/Citigroup Growth	0.30%	5.07%	5.07%	16.56%	4.74%	4.09%	3.45%	18.8%	Technology	3.56%
S&P/Citigroup Value	-0.22%	6.80%	6.80%	14.79%	-0.19%	1.05%	3.01%	16.1%	Financial	3.04%
S&P 500 Utilities Sector	0.25%	2.74%	2.74%	12.32%	-1.48%	4.70%	1.81%	3.2%	Utility	2.73%
Russell 2000 (Smallcap Stocks)	2.59%	7.94%	7.94%	25.79%	8.57%	3.35%	7.87%	10.3%	Consumer Staple	2.53%
MSCI EAFE (Int'l Stocks)	-2.20%	3.45%	3.45%	10.90%	-2.53%	1.78%	5.83%	100%	S&P 500	5.92%

Source: Ibbotson Associates & Bloomberg LP