

## MARKET PERFORMANCE — FIRST QUARTER 2009



**The quarter in brief.** The first quarter of 2009 saw a new bear market low, but also an impressive March rally and a real sense of optimism as spring started. During the first 100 days of the Obama administration, we saw revisions to the bank

rescue plan, efforts to heal the consumer credit market and ailing U.S. automakers, and new federal aid for AIG and Citigroup. The key interest rate was untouched; mortgage rates remained low. Overseas markets soared in March but struggled for the quarter, and the commodities sector improved modestly after two bad quarters.

**Domestic economic health.** January saw a new President, and a new optimism in the land ... but it wasn't prevalent on Wall Street. House Democrats worked to craft a massive stimulus plan for President Obama, and there was talk of creating an aggregator bank to buy up toxic securities. Rescue efforts were clearly getting underway, but they would take some time to have an impact.

In February, these plans were further implemented as the \$787 billion stimulus package became law. The bill includes payroll tax cuts of \$400 for individuals and \$800 for couples, \$75 billion to help homeowners without equity and homeowners who can't make mortgage payments and another \$200 billion to Fannie Mae and Freddie Mac to get the program started.<sup>7</sup> The President proposed a federal budget designed to cut the \$1+ trillion deficit to \$533 billion by 2013, including a \$634 billion health care reserve fund.

The federal government devoted another \$30 billion to shoring up AIG in exchange for preferred stock shares, and rescued Citigroup in a deal that gave Uncle Sam 36% of the bank's common stock.<sup>1</sup>

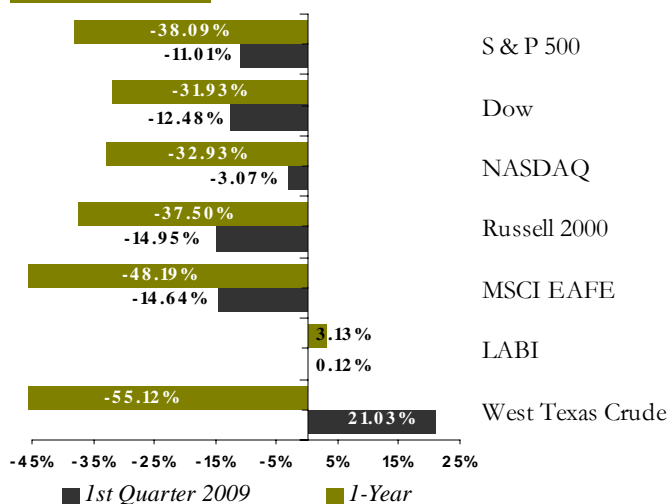
Things turned brighter in March, and the market had its best month since 2002. Treasury Secretary

Geithner introduced the Public-Private Investment Program, in which pension funds, insurance firms and other long-term investors could buy up illiquid securities with a combination of private money and federal loans awarded through auctions.<sup>2</sup> The Federal Reserve said it would buy up to \$300 billion in Treasuries and \$750 billion more in mortgage-linked bonds.<sup>3</sup> CEOs of Bank of America, Citigroup and JPMorgan Chase reported that they were profitable in January and February. Indicators improved in the housing and manufacturing sectors and the Conference Board and Reuters/University of Michigan consumer confidence indexes rose slightly.<sup>4</sup>

At the end of March, President Obama gave GM 60 days and Chrysler 30 days to severely restructure or lose their chance for further federal money. Chrysler was given 30 days to partner with Fiat. Americans are waiting to see if these two auto companies can avoid bankruptcy.

**Major indexes.** It was a poor quarter, but we had a great March. Last month left investors hopeful about the second quarter and improved the first quarter numbers.

### Market Scorecard



## 2ND QUARTER OUTLOOK

**Second quarter outlook.** The recession is entering its seventeenth month, making it a long one by post-WWII standards. The stock market had a spectacular March, and April started with a bundle of good news. U.S. factory orders rose 1.8% for February – the first increase in 6 months. Durable goods orders rose 3.5% in February, orders for computers and electronic products rose 7.3%, and machinery orders jumped 12.7% (the largest increase since March 1994).<sup>5</sup> The Financial Accounting Standards Board voted to relax the mark-to-market rule, which could have the effect of boosting the net income of banks by 20% or higher.<sup>6</sup> Recent increases in home sales and decreasing mortgage rates bode well for the real estate sector. Even as unemployment figures continue to rise, there is more and more evidence that the economy is pointed toward stabilization.

We continue to believe strongly in the value of bonds – specifically within the financial sector. Corporate bonds and preferred stocks have been discounted drastically, and are offering historic yields at this time. *Our philosophy is that the financial sector was the catalyst for the bear market, and it will be the sector to bring us back into bull-market territory.*

In addition, we continue to be optimistic about the future of oil prices and natural gas. In regards to other commodities – it is probably too late to buy gold, and other metals have seen significant gains in recent months so it might not be the right time to look for opportunities in that area. Agriculture and steel are two other commodity-related areas that we continue to watch.

### Areas of Relative Strength:

#### Equities:

- Energy
- Emerging Markets
- Financials
- Technology

#### Fixed Income:

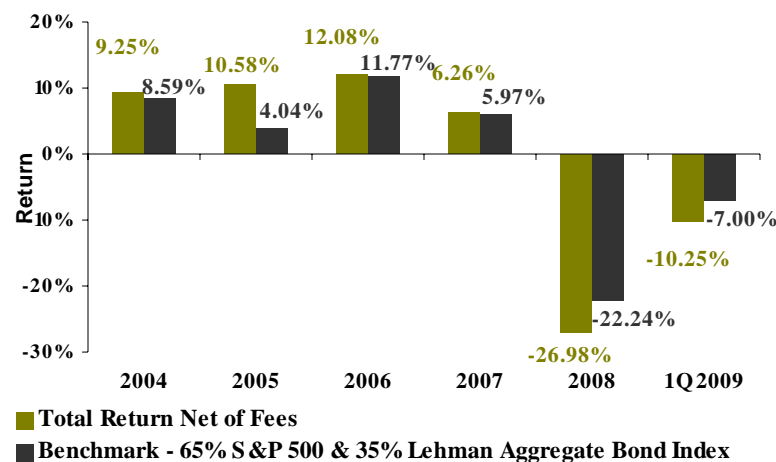
- Senior Floating Rate Funds

#### Preferred Stocks

Areas where we expect a temporary pullback in the market, which may provide new opportunities for growth:

- Gold
- Commodities

### Johnson Bender & Co. Growth & Income Portfolio vs. Benchmark



*Past performance cannot guarantee comparable future results. The JBC Growth & Income Composite was created on Dec. 31, 2003. The composite is defined to include all fully discretionary accounts over \$250,000 that are managed according to our growth and income strategy (65% equities/ 35% fixed income investments). Periodically, the portfolios may deviate from these allocations based on market conditions. The equity holdings may vary between growth & value stocks depending on market trends and will generally resemble those equities that comprise the S&P 500. However, if market conditions warrant, the portfolio may include considerable weightings in small cap and international holdings. The fixed income holdings will generally resemble the Lehman Aggregate Bond Index. However, if market conditions warrant, the portfolio may include investments in floating rate loan funds, high yield bonds, international bonds, preferred stock, CDs and money market funds. Lastly, the portfolio may include commodity holdings depending on market trends. All performance figures for the composite and the benchmark are net of management fees and expenses unless otherwise noted, include the reinvestment of dividends, are reported in U.S. Dollars and reflect the changes in net asset value. All performance figures are as of Dec. 31 of the year noted with the exception of 1Q2009 which is as of March 31, 2009.*

## THE BENEFITS OF ACTIVE MANAGEMENT

While market declines may be a fact of life, active management of your accounts may potentially reduce losses. The key advantage of actively managed accounts is the flexibility to move out of unfavorable positions in a timely manner. Actively managed accounts also have the unique advantage of being opportunistic. When pessimism is prevalent – as on the brink or in the midst of a bear market – investors may panic, selling stocks out of fear and not because the fundamentals of companies have deteriorated. Taking advantage of these types of market anomalies is something only active financial advisors – as opposed to passively managed index funds – can do.

Over the years, stocks have provided excellent growth potential, but not without risk. If historical results are any guide, investors should expect to see declines of 5% to 10% quite regularly, and more severe corrections every few years. Since 1900, there have been 370 declines of at least 5% and close to 60 declines of 15% or more. Declines are so normal, in fact, that even in 1999 – a year in which the Dow rose over 25% – there were three declines of 5% or more. The table below shows just how normal declines are.

	Number of Declines	Last Occurred	Average Length	Frequency	What % Get Worse?*	5-Year Average Annual Return Following Declines
"Routine" Declines (5%+ Loss)	370	Dec. 2008	38 days	3.4 per yr	32%	6.4%
"Moderate" Corrections (10%+ Loss)	120	Nov. 2008	105 days	1.1 per yr	49%	7.9%
"Severe" Corrections (15%+ Loss)	59	Nov. 2008	210 days	0.5 per yr	54%	9.7%
"Bear" Markets (20%+ Loss)	32	Nov. 2008	369 days	0.3 per yr	N/A	9.8%

\*For example, 32% of "Routine" declines deteriorated to "Moderate" corrections.

Source of chart data: Ned Davis Research, 12/31/08. Calculations by Oppenheimer Funds. The table represents the Dow Jones Industrial Average. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. **Past performance does not guarantee future results.**

Active management strategies may be likely to produce higher returns than passive strategies, with limited changes to overall portfolio risk, for four specific reasons:

**Expert analysis.** Seasoned managers make informed decisions based on experience, judgment, and prevailing market trends.

**Defensive measures.** Managers can make changes if they believe the market may take a downturn.

**Diverse Sources of Added Value:** Active managers with extensive resources and expertise across all sectors of the market can identify many small and diverse sources of added value, which could boost returns without significantly altering risk levels.

**Passive Management Limitations:** Passive strategies often sacrifice return because of restrictions on the securities they can invest in, while a structural tilt toward higher-yielding issues can add unexpected risks that most passive managers lack the resources to evaluate.

At Johnson, Bender & Company we have weathered recessions, bear markets and other challenging market events in the past. We put that wisdom and experience to work every day, while staying focused on long-term objectives.

## FIRM NEWS

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We will not be holding our annual event at Sam Houston Race Park this year. The race park has cancelled their thoroughbred races this year due to the damages the facility suffered as a result of Hurricane Ike last fall.

### *Sources and Disclosures:*

<sup>1</sup> [money.cnn.com/2009/03/02/news/aig.plan.c.fortune/](http://money.cnn.com/2009/03/02/news/aig.plan.c.fortune/) [3/2/09]

<sup>2</sup> [usatoday.com/money/economy/2009-03-22-recovery-plan-one-trillion\\_N.htm](http://usatoday.com/money/economy/2009-03-22-recovery-plan-one-trillion_N.htm) [3/23/09]

<sup>3</sup> [msnbc.msn.com/id/29707055/](http://msnbc.msn.com/id/29707055/) [3/19/09]

<sup>4</sup> [marketwatch.com/news/story/consumer-confidence-up-record-low/story.aspx?guid={4407A2F9-44A9-462A-8F39-BE30214E476F}&dist=msr\\_13](http://marketwatch.com/news/story/consumer-confidence-up-record-low/story.aspx?guid={4407A2F9-44A9-462A-8F39-BE30214E476F}&dist=msr_13)

<sup>5</sup> [forbes.com/feeds/afx/2009/04/02/afx6247597.html](http://forbes.com/feeds/afx/2009/04/02/afx6247597.html) [4/2/09]

<sup>6</sup> [businessweek.com/investor/content/apr2009/pi2009042\\_653376.htm](http://businessweek.com/investor/content/apr2009/pi2009042_653376.htm) [4/2/09]

<sup>7</sup> [online.wsj.com/article/SB123857844797677655.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB123857844797677655.html?mod=googlenews_wsj) [4/2/09]

**Past performance is no guarantee of future results.** No investment strategy can guarantee a profit or entirely protect against loss. High yield bonds involve additional risk due to lower credit ratings. Investors should be aware of the possible higher levels of volatility and increased risk of default. Senior floating rate funds are not money market funds; their NAVs will fluctuate and may lose value. Investment in these loans involves certain risks, including among others: risks of nonpayment of principal and interest, collateral impairment, non-diversification and borrower industry concentration, and lack of full liquidity. •Investors should understand the relationship between bonds and interest rates. If interest rates rise the value of bonds will subsequently fall. •Investors should note that rebalancing a portfolio may be a taxable event. Additionally, an investor may incur fees or charges as a result of rebalancing certain investments held within their portfolio. •An investment cannot be made directly in an index. •The Dow is an unmanaged, price-weighted index of 30 of the largest, most widely-held stocks. •The S&P 500 is an unmanaged index considered to be representative of the U.S stock market in general. •The NASDAQ Composite Index is an unmanaged, market-weighted index considered representative of over-the-counter stocks. •The Russell 2000 is an unmanaged index considered to be representative of small stocks. •The MSCI EAFE Index is an unmanaged index considered representative of stock markets in Europe, Australasia and the Far East. •The Lehman Brothers Aggregate Bond Index is an unmanaged index considered representative of U.S. fixed-income securities. •International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuations, and differences in auditing and other financial standards. •Small cap stocks are subject to more risk and may be less liquid and subject to greater price volatility than large cap stocks. •Investments concentrated in a specific industry or sector may be subject to a higher degree of market risk than funds whose investments are diversified.

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