



JOHNSON BENDER & CO.

WEALTH MANAGERS

Recent Market Volatility

May 26, 2010

As many of you are aware, volatility has surged in the equity markets in the past month, with the S&P 500 recently experiencing a "correction", defined as a decline of 10% or more. The recent slide of approximately 14%, to a level of 1040 on May 25, 2010, marks the first correction since the S&P 500 began its historic bull run in March 2009. From its March 3, 2009 low of 666.79 to its recent intra-day high of 1219.80 on April 26, 2010, the market advanced an astounding 83%. Investors are closely watching to see if the S&P 500 bounces off the 1040 level just as it did last February, when the market hit a low of 1044 and then rallied sharply higher.

Sovereign Debt

The sovereign debt issues overhanging Europe have played a major role in pushing the markets lower. Many European banks are heavily exposed to debt issued by some of the EU's more troubled members; namely, Greece, Portugal, Spain, Ireland and Italy. A default or restructuring of this debt will undoubtedly damage the balance sheets of the banks and conceivably set off another financial crisis in Europe. Such an outcome would obviously deal a severe setback to the nascent economic recovery now taking hold around the globe. Fear also abounds that the austerity packages adopted by certain EU members to address yawning budget deficits will weigh heavily on growth within the euro zone.

China's Economy

Efforts by China to slow its economy is also spooking investors. Policy makers in the country are trying to ward off inflation as well as a bubble in residential real estate prices. As such an exercise is an inexact science, there is always a risk that the economy ultimately slows too sharply. Of course, problems in Europe, China's largest export market, are exacerbating these worries. China's growth has been instrumental in leading the world out of recession, and any meaningful slowdown in its economy will have wide-reaching ramifications. Of note, the Shanghai Composite Index is technically in a bear market, having fallen more than 20% from its August 2009 highs.



Geopolitical Tension; North & South Korea

Escalating geopolitical tensions between North and South Korea have given investors another reason to sell or remain on the sidelines. Last week South Korea blamed North Korea for a torpedo that sank one of its warships, killing 46 sailors. North Korea's leader, Kim Jong Il, reportedly ordered the country's military to prepare for combat.

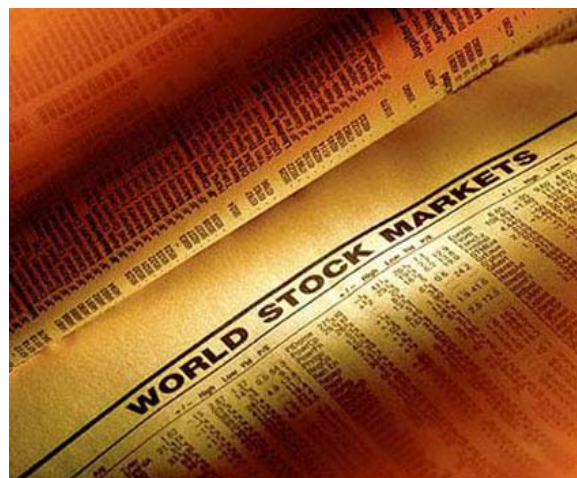
Financial Reform

Lastly, the pending financial regulatory overhaul here in the U.S. is casting a cloud of uncertainty over many banks and brokers. Wall Street has become an easy target in this election year, and Congress may pass a bill that is tougher than once expected. These concerns have led many financial stocks to sell-off sharply during the correction.

Johnson Bender & Company Outlook

In the midst of all these headwinds, it is important to remember that the U.S economy *continues to gain momentum*. The economy added 260,000 jobs last month according to the April jobs report. (By contrast, in April 2009, the economy shed 539,000 jobs). Moreover, the Fed expects the economy to grow between 3.2% and 3.7% in 2010, with the unemployment rate falling to a range of 9.1% - 9.5% (from 9.9%) by year's end according to the minutes from its last open market committee meeting. Additionally, corporate earnings for the first quarter generally came in better than expected as companies have started to reinvest and consumers have begun to slowly spend again. For the full year, many Wall Street strategists are forecasting earnings of approximately \$80 per share for the S&P 500, with estimates approaching \$90 per share in 2011. If these earnings forecasts prove accurate, stocks are arguably inexpensive.

The stock market may very well continue to experience greater volatility in the months ahead due to the numerous crosscurrents at work. Clearly, the fears surrounding European sovereign debt are well founded as an unraveling of the European Union and the euro will weigh heavily on the global economy. Assuming EU members can avert a downward spiral and stabilize the situation in Europe in the weeks and months ahead, we expect equities to ultimately trend higher as investors resume their focus on an improving global economy and strong corporate profit growth. Relative to the modest yields offered by many investment grade fixed income securities, we continue to think stocks make more sense for investors that are willing to accept the risk and volatility associated with equities.



Sources: Wall Street Journal, BusinessWeek, Thompson Reuters

Securities and investment advisory services offered through FSC Securities Corporation, member FINRA/SIPC and a registered investment advisor. Additional investment advisory services offered through Johnson Bender & Company, A registered investment advisor not affiliated with FSC Securities Corporation.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. International investing involves special risks including greater economic and political instability, as well as currency fluctuation risks, which may be even greater in emerging markets. This material contains forward looking statements and projections. There are no guarantees that these results will be achieved. Due to volatility within the markets mentioned, opinions are subject to change without notice.