Riverplace Capital Management, Inc. RCM Riverplace Capital Management, Inc.

PERSPECTIVES

APRIL 2009 NUMBER 43

First Quarter

It's over! The bear market is dead, long live the bull market. Riverplace Capital Management sent out an e-mail and letter in mid-March stating that we believed the stock market bottom was in. Since that time, more and more evidence is coming in that the economy is stabilizing and the stock market has had a significant rebound.

Retail sales, new home sales, building permits, existing home sales, and durable goods orders have all ticked up. Commodity prices have also moved off their lows and this particular indicator has a high correlation with major stock market bottoms. No one would claim that the economy will be back to health soon. However, stock market investors were fearful that the economy had much further to fall and had sold equities down to levels anticipating as much. When indicators pointed to stabilization, stock prices rebounded.

Until the turn around in mid-March, the stock market was brutal. At its nadir it was down around 27% from the first of the year and over 60% from its high about 18 months ago. No wonder so many investors finally gave up during the week of March 9. It was capitulation in its classic form and provided a strong indication that we had reached a bottom.

The bond market became as dysfunctional as the stock market. Yields on good quality paper approached double digit returns. At least this period provided an opportunity to pick up terrific yields in corporate and municipal bonds which we did.

What we don't know yet is the course of economic recovery. Will it be robust or, as most expect, slow and labored? What industries will lead which will wither? These are keys to our investment decisions.

Forecast

Economy

The economy is now showing signs of stabilization; next comes recovery. The good news is that stabilization is occurring before any impact from the government stimulus package. This makes investors hopeful for a more meaningful recovery once the impact of the stimulus dollars hit.

The U.S. led the world into this recession; it may now lead the world out. The American consumer is not dead. He may be chastened and for a time more careful. He may even embrace saving, but don't expect him to become ascetic or emulate the German and Japanese consumers. We are young and vibrant with many new citizens and we want a better and improved life. Consumerism is not dead. Yes, debt levels are too high, but they will be reduced only slowly.

Equities

The stock market is already recovering. In our mid-March letter to clients we outlined why we had drawn the conclusion that the markets had already seen the worst:

- A 60% decline from top to bottom already discounts a huge amount of bad news.
- The banking system is stabilizing.
- Investor sentiment has become so negative that a turn of some magnitude is inevitable.
- Equities are cheap by almost every long-term measure.

(continued)

Talk With Us

Market cycles often unnerve ordinary investors; especially like the one we have just had. The more dramatic and deeper the cycle, the more investors give up on investing altogether. They usually rationalize their decisions by putting some framework around that decision. Though sometimes rational, the framework is often a disguise for panic.

There are many good reasons for reducing risk. An important one may be that a minimum level of asset base is required to assure financial solvency. This is critically important for those living on their asset base. The proper investment allocation decision can help here. More fixed income and less equity is usually an appropriate approach. A properly structured fixed income portfolio can provide most of the income needs while long-term equity positions can be maintained.

For those still building their asset base, a significant decline ought to be looked upon as an opportunity. Risk declines proportionately with declines in the general stock values. That is because as unnerving as it may seem, most companies do not go out of business

(continued)

Notice

Please e-mail sharrington@riverplacecapital.com with your current e-mail address so that we can send you commentaries and updates in a timely manner.

MAJOR INDICES AS OF 3/31/2009

Large Cap Stocks (S&P 500)	-11.70
Dow Jones Industrial Average	-11.90
Mid Cap Stocks (S&P 400)	-9.20
NASDAQ Composite	-3.10
Small Cap Stocks (Russell 2000)	-15.40
MSCI EAFE	-14.60
Lehman Corp. Bond Index	-0.05
Inflation	0.50

(EQUITY INDICES ARE THREE-MONTH RETURNS EXCLUDING DIVIDENDS)

Forecast *(continued)*

- Investment alternatives are not attractive.
- The recent market action is similar to other market bottoms.

We further believe that we are now at the beginning of a new bull market. We expect that it may be far more powerful than many expect and last for years. Out of the destruction of the last few years we are now building a more balanced economy and slowly restructuring international relationships.

Expect more emphasis on manufacturing and fairer trading relationships. Of course, none of this will come about easily, but the direction is unmistakable. The gains this year may occur sooner rather than later. Markets anticipate recovery by many months then typically mark time as evidence emerges as to its strength.

Fixed Income

Last fall and into the winter months, investors sought the ultimate safety of U.S. Treasury debt as the equity markets were in free fall. Many other fixed income obligations, especially corporate bonds were shunned. The spread between the rates for government and corporate debt widened to historic levels.

That spread is now narrowing as markets begin to normalize, but is still wider than usual. The general level of interest rates is quite low. This was engineered by the Federal Reserve to aid economic recovery. This helps borrowers, but not savers.

Inflation is a longer-term concern. It is nearly impossible for businesses to get cost increases through right now, but in time all of the additional debt that the government is incurring, and the fact that the Federal Reserve is printing money to fund part of it, could lead to higher inflation. That may begin to be noticed in a year or two. That is why we have kept the maturities short on the bonds we have purchased.

Talk With Us *cont'd*

during these periods and bad periods are followed by recoveries.

The opportunities today are enormous. In fact, they are among the best ever. Many quality companies are trading at valuations that offer little downside risk and significant upside potential. Investors who think they can precisely time price recovery are usually wrong and only end up missing out.

Those investors that sell out after a significant decline face the psychological hurdle of reversing themselves. This is hard after one has created the rational for getting out in the first place. These investors find themselves rooting for the negative, looking for more bad news and further decline to justify their decision. They often miss the positive signs and only get back in after markets have substantially recovered or never get back in at all locking in their losses.

Riverplace Capital favors scaling in and scaling out of the market. Risk can be reduced to a negligible degree after scaling out to a particular level. The investor still has a position to participate in the inevitable rebound and to build upon as the environment improves. This approach helps deal with the normal psychological hurdles that exist in investing and makes decision making more rational and less influenced by fear. (This is what we do for our clients.) So if you would like to invest with a firm committed to objective analysis,

Talk with Us.

Investment Strategy

Equities

Over the past six months, we raised our cash levels by reducing our equities. This was done for defensive reasons. We are now slowly reducing these cash levels by adding back equities. The rate at which we do so is account specific. We must first meet the needs of our clients, however, we believe that the worst is past in the stock market and see wonderful opportunities to pick up productive assets at bargain prices.

We are pleased with the performance of our portfolios this year as they are significantly outperforming benchmarks.

Fixed Income

Riverplace Capital has been able to buy many bonds at attractive prices. Most of these have been corporate or municipal bonds that other investors shunned. The opportunity to pick these up cheaply, for the moment, has passed. The abnormally large spreads in yield between these bonds and treasuries have now narrowed. Because of future inflation risks, we have kept maturities short.

Wealth Management

Early in the year we adjusted the weighting of various sectors in diversified wealth management portfolios. EAFE participation was reduced in favor of including emerging markets. Treasury based fixed income was significantly reduced because yields had fallen to such low levels and corporate fixed income increased to take advantage of the high yields available there. In equity weightings, growth was favored over value and large-cap favored over small-cap. So far these changes have helped these portfolios continue to outperform the market at large.

VISIT OUR WEBSITE AT WWW.RIVERPLACECAPITAL.COM

1301 RIVERPLACE BOULEVARD, SUITE 2130 • JACKSONVILLE, FLORIDA 32207-9030 • TEL. (904) 346-3460 • FAX (904) 346-3434