



PERSPECTIVES

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Year 2009

The end and the beginning; the ten year bear market for stocks ended in a spectacular sell-off and a new bull market arose from the ashes – what a year. Yes, a new bull market; it's not just a rebound. This may be seen as a controversial position, but it is one that we, at Riverplace Capital, firmly believe and have plenty of historical precedence (for more of our view, see the **Forecast** section).

The most striking feature about this year has been the intense volatility. At the beginning of the year stocks seemed to be predicting a depression and ended up predicting a reasonable recovery. The underlying debate among investors all year long has been the state and course of our economy. That debate is still underway, but there is a growing consensus that the worst is behind us.

Bonds, especially corporate bonds, have had a similar year to stocks. Early in the year investors sold every bond except U.S. Treasuries. With prices falling, yields became extremely attractive. Investors feared that many of these bonds would end in default in a serious depression. When it became apparent that the economy was not going to be that bad, these bonds rallied and yields came back down.

The best returns were in those areas or companies that were given up for dead at the beginning of the year. Technology, consumer, materials and the industrial sectors did especially well. The common feature of the sectors is that they are all particularly sensitive to business conditions. More defensive areas like staples, telecom, and utilities produced much more modest returns. What will the new year bring? (See the next section.)

Forecast

Economy

In a nut shell, the forecast for this year's economy is for continuing recovery. No one really knows how fast, but the direction is clear. Yes there is a debate about a faltering uptrend or even a second dip as government stimulus is withdrawn. Both of these scenarios seem unrealistically bleak. First of all, the government stimulus package is programmed to mostly be spent in 2010, not this past year. Confidence begets confidence and much of the rest of the world is already growing at a healthy rate. Double-dip recessions are extremely rare and current conditions do not indicate one. This economy seems to be on a similar trajectory to past recoveries.

Equities

We believe the surprise in 2010 will be

how well the stock market does. There continues to be a great deal of fear and trepidation. In fact, even though stocks did very well in 2009, investors in general cashed out of stock mutual funds and bought into bond funds. What a shame, as interest rates rise because the economy improves, bond values will decline, but stock values likely will go higher. As a crowd, investors often do the wrong thing at the wrong time. **This market is an opportunity not to be missed!**

This market has everything it needs to be a new bull market; fear and disbelief, plenty of liquidity, rising real earnings, improving economics, and increasing worldwide demand. This mix has been the essence of the beginnings of major positive moves in the past. The underlying economic picture is improving rapidly.

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Talk With Us

Market eras are most clearly seen and best defined in retrospect; we can now clearly see that the last decade was a bear market period for stocks. It started with the end of the blow-off of the dot.com bubble and subsequent decline and ended with the collapse of the debt bubble. In between the two bursting bubbles, the market recovery was marked by declining price/earnings ratios; a clear bear market characteristic.

Bear market decades are rare, but others occurred in the 1930's and 1970's. Interestingly enough, the ten subsequent years were great for stocks. The ten years after 1939 showed stock returns of 9.2% and after 1982, when the bear market of the 70's finally ended, a return of 19.2%. At the end of both previous bear market decades, investors were just as unsure and cautious as they are today.

It is natural for investors to get rattled by bad times and seek safety. The current flight into bonds is a case in point. Interest rates haven't
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Notice

Riverplace Capital offers our clients **free** financial planning. We believe strongly in the value of planning as it helps document goals and objectives, plus provides a benchmark to measure progress. Planning also helps us provide better, more targeted financial service to you. If you would like a financial plan, contact your portfolio manager at (800) 391-1212

MAJOR INDICES AS OF 12/31/2009

Large Cap Stocks (S&P 500)	23.45
Dow Jones Industrial Average	18.82
Mid Cap Stocks (S&P 400)	35.00
NASDAQ Composite	43.89
Small Cap Stocks (Russell 2000)	25.22
MSCI EAFE	27.75
Lehman Corp. Bond Index	5.60
Inflation	1.8

(EQUITY INDICES ARE TWELVE-MONTH RETURNS EXCLUDING DIVIDENDS)



Forecast *(continued)*

Good companies adjust, finding new sources of revenues and means toward greater efficiencies. A new wave of technologies is on the horizon to drive both. In coming reports, RCM will outline many of these, but collaboration, mobile computing, energy efficiencies, and agricultural gains are part of these new economic drivers.

Remember, past bull markets have taken place under much worse conditions than today. They took place during periods of higher taxes, more regulation, and started during periods of high unemployment and with government help. These conditions are a few of the reasons skeptics cite why a new bull market can not occur today – well it has already started.

Fixed Income

The risk in owning longer maturity bonds is now too great. Interest rates have already begun to creep up as the economy continues to improve. Even high yield (junk) bond interest rates have declined to the point where it is likely that the new trend will be toward higher rather than lower rates. Make no mistake; this is a trend that we expect to build only slowly. Currently excess capacity should keep inflation and interest rates subdued for some time yet. However, rates are moving up to a more normal range for a growing economy.

been this low since 1957. After that, rates and inflation increased for the next 25 years producing poor or negative returns for bond investors — a 25 year bear market for bonds.

Since 1982 bonds have been in a bull market. Rates and inflation had peaked and began a protracted decline culminating at the very low rates of today. With the Federal Reserve at a current policy of 0-.25% for Fed-funds, there simply isn't any room to go lower. The next trend simply has to be higher for interest rates. This may imply higher inflation as well, but some inflation is needed. Economies that run at rates too close to zero, run the risk of falling into deflation. Deflation is very difficult to cure and is very damaging to an economy. It erodes collateral values which freezes-up lending which in turn stunts economic growth. It is much better to have 2-3% inflation as this is manageable and keeps things moving forward.

The opportunities, coming out of a decade long bear market, are in stocks. Expectations are low, price/earnings ratios are reasonable, and the companies

are themselves in good financial shape. As in every market, some will do better than others. We believe that companies participating in fast growing foreign markets, green energy, clean water, internet services, and/or the mobile internet will perform the best.

Every era has a backdrop of risks. Many investors can recite a litany of them and they include budget deficits, potential geopolitical shocks, increasing regulation, higher taxes plus many more. These are nothing new and have been present in some combination during previous bull markets. Few can or do recite positive factors and there are always some. Bet against this crowd.

At Riverplace Capital, we believe we are at the early stages of a multi-year advance that is a new bull market. The businesses that have survived and thrived through the past ten years are in incredibly good shape. Every problem is potentially a business opportunity. Don't lose sight of that possibility and keep an open mind. If you want to work with a firm that works to find opportunity in every market cycle,

Talk with Us.

Investment Strategy

Equities

We are invested. Targeted are those companies that are participating in new growth opportunities. We may further refine this list in the coming months as the 2009 results come in and the recovery evolves. Riverplace Capital is very optimistic for returns in 2010.

Our targeted themes are participation in faster growing foreign markets, green energy, clean water, internet services, and/or the mobile internet. There are also some sub-categories and niches that we have not disclosed. So far companies that fit these criteria have outperformed the broader market and we expect much more to come.

However, we will also be diligent to capture and book some gains along the way as we expect periods of reoccurring volatility. We will be doing more trading this year.

Fixed Income

Once interest rates move back to levels that are more reflective of a growing economy and with more normal expectations for inflation, Riverplace Capital will again be willing to buy intermediate maturity bonds. Until then, our policy is to stay with much shorter maturities. The good news is that we may not have to wait too much longer for rates to move up to what we consider more normal and sustainable levels.

Wealth Management

We will be making some adjustments to our wealth management model. These will be done to refine our emphasis on growth opportunities. Obviously, we will continue to strike a balance with risk. We are pleased with how our wealth management approach performed in 2009. It has improved quickly and recovered much of the value lost in 2008.

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