THE OMNIVEST MARKET VIEW

Investments

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Inertia Breeds Missed Opportunities

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It is surprising that so many investors continue to be paralyzed about taking an aggressive step forward into the equity market, despite the fact that we are in the third year of the current bull run for stocks. While we recognize the pain experienced by investors during the 2008-2009 bear market for risk assets, we are even more perplexed as to why investors do not harbor a similar fear about fixed income assets. Bill Gross of Pimco is correct when he states that investors should avoid Treasuries because of their low yields, and sometimes, even negative real yields.

It is our view that the performance of financial markets over the past 2-1/2 years has been largely a retracement of the financial market massacre that coincided with the collapse of Lehman Brothers. In the table (on the second page), we offer a quick review of where asset values were the Friday before Lehman Brothers collapsed, their subsequent high or low valuation and finally where values closed at the end of April 2011.

In the fixed income markets, interest rates are now lower than their pre-Lehman collapse. The S&P 500 Index and the Russell 2000 Index are now higher. The Small Cap Index did reach a new all time high at the close of April 2011.

Emerging markets have retraced their entire drop post Lehman crisis but remain below their peak level of 1311.52 which was set October 26, 2007. In the currency market, the US dollar index is perilously close to setting new all time lows, plagued by the twin weights of unsustainable deficits and unsustainably low interest rates.

Commodities have retraced their entire move, but also remain well below their peak levels that were reached in July 2008. The recovery in commodity prices is due to economic strength of emerging market economies and from an economic rebound of the US economy. Demand for real assets and the chronically weak US dollar have helped to push price of silver and gold to new highs.

While financial markets have generally retraced all of their moves, the economy has not. The unemployment rate is considerably higher than the level which prevailed prior to the Lehman Brothers collapse. This is largely due to the financial crisis that was deeply concentrated in all aspects of the housing industry which included mortgage lending and securitization. In essence, a large portion of the housing industry, which was built on froth, will not be replaced and will keep the unemployment high relative to historical levels.

The other interesting observation from the economic data is that we have recovered from the deflation scare, but inflation still remains well below the 5.40% level of September 2009.

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This begs the question of "how sustainable is a 0% Federal Funds interest rate?" - Not very sustainable.

In summary, the financial markets have clearly healed well ahead of the economy but breadth of the improvement has yet to be understood. It remains our contention that risk assets will provide the best returns over the near term and equities are poised to set new historical highs.

Asset Classes Pre-Lehman, Subsequent High/Low's & values end of April 2011

	9/12/2008		High/Low	Current 4/26/2011
2-Year Tsy Yield	2.21	11/4/2010	0.33	0.70
10-Year Tsy Yield	3.72	12/30/2008	2.06	3.36
High Yield Spreads	8.39	Nov-08	19.31	5.39
Investment Grade Spreads	3.46	Nov-08	6.20	2.05
S&P 500 Index	1251.70	3/9/2009	676.53	1345.87
Russell 2000 (Small Cap Index)	720.26	3/9/2009	343.26	850.99
BRIC	279.44	10/27/2008	135.25	373.19
Emerging Markets	855.47	10/27/2008	454.34	1203.33
Developed Markets	314.36	3/9/2009	168.71	334.83
BKX Index	13.67	12/15/2008	9.04	14.88
US dollar Index	78.96	4/27/2011	73.66	73.67
Brazilian real	1.78	12/8/2008	2.51	1.57
Gold	761.00	11/13/2008	705.00	1508.00
Silver	10.88	11/20/2008	8.96	47.06
Oil	101.18	12/19/2008	33.87	112.88
Unemployment Rate	6.10	Oct-09	10.10	8.80
CPI (YoY)	5.40	Jul-09	-2.10	2.70
Fed Funds rate	2%		0%	0%
CRB Index	360.02	3/2/2009	200.34	366.60

Source: ***Bloomberg***

About OnmiVest Group LLC

OmniVest provides strategic guidance on the economic and market trends that affect the performance of clients' portfolios. With an experienced team and a global perspective, OmniVest Group translates market information into actionable ideas that we can leverage to meet client's goals.

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