Wrap Up

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The stock market continued to rally, posting its strongest first quarter showing since 1998. The willingness to take more risk was evident as defensive, yield-oriented equities, which led the market in 2011, lagged the growth names. Economic indicators continued to improve, albeit slowly, and while we believe that corporate earnings will continue to make new record highs, the rate of earnings expansion will likely slow to mid-single digits (from double digits in 2010 and 2011). Price-to-earnings ratios continue to be well below normal levels despite the extent of the rally, which began in October. If confidence continues to improve, we foresee a continued recovery in stocks.

Last year, the first "Baby Boomers" turned 65, a demographic milestone which formed the basis of many an investment thesis over the past two decades. As this population bubble dominated by hyper-consumers enters retirement (10,000 per day), we are likely to see a growing demand for income-producing investments. Bonds, with current yields at all-time lows, may not be the most appropriate vehicle, and money market funds, paying a fraction of a percent, aren't likely to provide the necessary cash flow for most retirement income strategies. We continue to believe that high-quality, dividend-paying stocks will command center stage. In fact, when comparing the volatility of interest income from bonds to the dividends of equities, while the risks associated with equities vs. bonds is different, the dividend income has been steadier than that of interest income from bonds.

On a personal note, I am just finishing Steve Jobs' biography, a fascinating inside look at a man who not only revolutionized the computer industry but the music industry (iTunes), motion pictures (Pixar), and telecom (iPhone). His insatiable quest for design perfection has raised the bar for everyone, and the stock, up 55% year-to-date (as of 4/12/12), is a testament to his genius. I can't wait to see what Apple does with the television, their next focus (iTube??).