GREENWOOD REPORT

WHAT HAS CHANGED?

It is Spring. The grass is showing green, trees are showing leaves, new growth is upon us, and most of us are feeling better. Following the September 15, 2008 Lehman Brothers failure, the economy and the securities markets experienced six very negative months. In fact, the first quarter of 2009 was the sixth consecutive losing quarter for the Dow Jones Industrial Average. Throughout January and February, when the outlook seemed the darkest, *investors* were able to "stay the course", while fear seized those with less experience and resolve. The Dow hit an intraday low of 6,470 on March 6th and then proceeded to rally 20% through early April. This rally doesn't mean that we have put the problems behind us, but it does remind us that recovery will happen. It will be a recovery you won't want to miss. As we wrote in February, we are in constant discussion, debate, and deliberation regarding the developments in the global markets and are evaluating what adjustments may be necessary to manage through this challenging time. Daily, we ask ourselves the question: *What has changed?* Our focus centers on the actions of world governments, the daily flow of economic data, the housing market, and the credit markets. Though encouraged, our conclusion was that major gaps still existed in the plan to secure a recovery. In other words, *not enough had changed*. That is, until recently.

PROGRESS

We've maintained throughout this crisis that a steady flow of positive information would slowly rebuild confidence in the economy. There are no silver bullets when it comes to global financial meltdowns. Progress has taken two forms: those actions intended to stabilize the system after the Lehman collapse (revive the commercial paper and money markets, shore up the banks' balance sheets, lower interest rates, raise FDIC limits); and those actions intended to help us turn the corner (discussed below). We are beginning to see positive information slowly enter the marketplace as signified by the positive change in leading economic indicators, lower mortgage rates and the securities markets rally. As we approach a turn in the economy, three initiatives are critical to a successful recovery.

Quantitative Easing – With interest rates at or near 0%, the Federal Reserve has shifted much of their focus to quantitative easing as a means to stimulate demand. The Fed has committed to purchasing trillions of dollars of mortgage backed securities, GSE securities (Fannie and Freddie), and high interest rate Treasuries issued in the mid-1980's. These actions are aimed at lowering interest rates – particularly mortgage rates – and are already proving successful.

The TALF Facility – The Term Asset-Backed Loan Facility was announced on November 25th, but implementation just began on March 19th. This program is intended to help market participants meet the credit needs of households and small businesses by supporting the securitization of asset-backed securities (ABS) collateralized by student, auto, credit card, and small business loans. The issuance of ABS dried up after the failure of Lehman which greatly inhibited the flow of credit to consumers and small businesses. A functioning ABS market is necessary for a healthy economy.

The PPIP Program – The Public-Private Investment Program was announced on March 23rd and is intended to create a market for the illiquid "legacy" distressed loans and other assets still residing on the balance sheets of the nation's largest banks. The government will pair public funds with private investment to divest the banks of these assets and free up capital for new loans. Through leverage, the government will maximize the impact of each tax payer dollar, sharing both risk and profits. While too early to assess the plan's impact, we are optimistic and encouraged that this critical aspect of recovery has been addressed. This program's earliest implementation will be after May 1st.

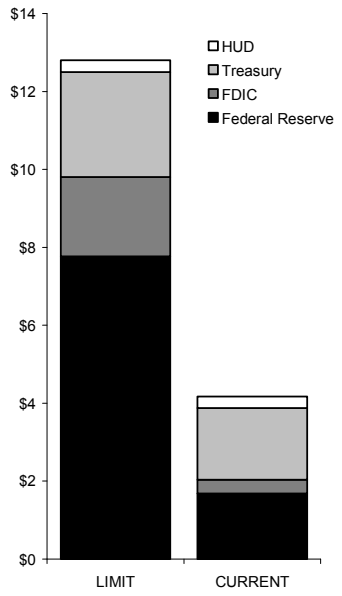
These three initiatives, coupled with the trillions of dollars already committed by the federal government, represent a plan that is comprehensive in nature. It is a plan that addresses the problems in the housing and consumer lending markets, deals with the illiquid assets plaguing the nation's major banks, and provides stimulus to restart the economy. It's not perfect, but it is innovative and flexible.

THE RESCUE PLAN IN ITS ENTIRETY

The data below was compiled by Bloomberg Financial and summarizes the financial rescue plan in its entirety. Thus far, the federal government has spent just under $4.2 trillion of the nearly $12.8 trillion (90% of U.S. GDP) committed to the effort. The magnitude of the effort is indicative of the seriousness of the risk. Some of the remaining funds may never be spent (e.g. some TARP recipients have indicated they are ready to return capital), but it is clear from the chart that we are in the early stages of implementation and significant firepower remains. As the President so aptly indicated, we are turning a "*battleship*", not a speedboat – it will take time. We haven't discussed each program in detail but welcome your questions by phone or email. The three programs previously discussed are highlighted in red.

	LIMIT	CURRENT
Federal Reserve Total	**$7,766**	**$1,679**
Primary Credit Discount	$111	$61
Secondary Credit	$0	$1
Primary dealer and others	$147	$20
ABCP Liquidity	$152	$7
AIG Credit	$60	$43
Net Portfolio CP Funding	$1,800	$241
Maiden Lane (Bear Stearns)	$30	$29
Maiden Lane II (AIG)	$23	$19
Maiden Lane III (AIG)	$30	$24
Term Securities Lending	$250	$89
Term Auction Facility	$900	$469
Securities lending overnight	$10	$4
Term Asset-Backed Loan Facility	$900	$5
Currency Swaps/Other Assets	$606	$378
MMIFF	$540	$0
GSE Debt Purchases	$600	$50
GSE Mortgage-Backed Securities	$1,000	$236
Citigroup Bailout Fed Portion	$220	$0
Bank of America Bailout	$87	$0
Commitment to Buy Treasuries	$300	$8

	LIMIT	CURRENT
FDIC Total	**$2,039**	**$358**
Public-Private Investment	$500	$0
FDIC Liquidity Guarantees	$1,400	$317
GE	$126	$41
Citigroup Bailout FDIC	$10	$0
Bank of America Bailout FDIC	$3	$0
Treasury Total	**$2,694**	**$1,834**
TARP	$700	$600
Tax Break for Banks	$29	$29
Stimulus Package (Bush)	$168	$168
Stimulus II (Obama)	$787	$787
Treasury Exchange Stabilization	$50	$50
Student Loan Purchases	$60	$0
Support for Fannie/Freddie	$400	$200
Line of Credit for FDIC	$500	$0
HUD Total	**$300**	**$300**
Hope for Homeowners FHA	$300	$300
Total	**$12,798**	**$4,170**



Source: Bloomberg Financial

WHAT'S NEXT?

During market declines it is very common for money managers to be asked "*have we reached a bottom?*" It is, after all, the question on everyone's mind. The truth is, no one knows for sure when a bottom is reached in equity markets. Those that say they do usually have ulterior motives or stand to benefit from a correct prediction. Our job as your investment advisor is to review all available data, translate the data into information, and utilize the information to make sound investment decisions. Presently, our information tells us that we will continue to have challenges in the near term. As nervous investors react to negative news (the auto industry, corporate earnings, unemployment) markets could go lower. Nonetheless, we expect the programs outlined in this commentary to help us turn the corner on this crisis. It is the information we have been waiting for.

Brock Gearhart
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