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Concerns stemming from a potential debt crisis in Greece and monetary tightening (higher interest rates and lower money supply) in developing nations subsided in February, which led stocks to mostly recover losses from a mild correction that occurred at the beginning of the year. Fears surrounding Greece debt subsided after the country announced a series of austerity measures and received support from other European Union nations. The stock market recovery was also driven by broadly improving economic data, despite concerns that severe snowstorms could negatively impact data on a temporary basis. There is also increasing optimism that the employment market has turned the corner, and will begin experiencing job creation in subsequent months. For the month, the Dow Jones Industrial Average ended up 2.95%, the S&P 500 ended up 3.10%, and the Russell 2000 Index ended up 4.50%.

The bond market appeared to settle into a trading range in the month of February, as investors had a significant amount of information to digest. The first FOMC (Federal Open Market Committee) meeting of 2010, which concluded at the end of January, created much anticipation surrounding interest rates, the end of quantitative easing, and eagerness over monetary policy. Additionally, discussions regarding financial sector reform on Capitol Hill and economic data reports kept fixed-income market participants at bay.

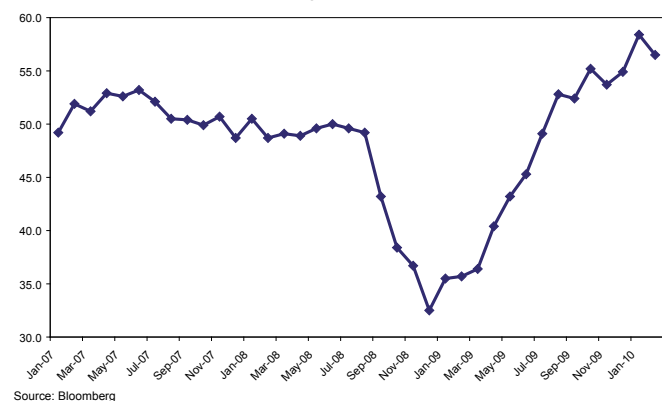
Most fixed-income sectors finished the month with positive total returns, and credit risk was in favor as the investment grade sector posted the best returns in February. Fixed-income investors continue to flock towards sectors offering competitive yields without excessive risk. Also, extremely low interest rates in shorter maturities are forcing investors to move to intermediate maturities despite the increased probability of the potential for a move higher in the Federal Funds rate. The intermediate- and long-end of the U.S. Treasury curve traded in a range of 0.10% to 0.20% for a majority of the month. However, one data point seemed to garner more attention. The yield on the 3-month U.S.

Treasury bill closed the month of February at a high of 0.12%, which is the highest yield on this security since September 29, 2009. This is significant because many investors believe the yield on the 3-month U.S. Treasury bill will lead any increase in the Federal Funds rate. We will be monitoring this closely as we move into March.

Several indicators gauging various components of the economy provide evidence that a recovery has commenced and is gaining traction. Factory orders rose 1.7% from the prior month in January, and has risen during nine of the previous ten months. Broader gauges of the manufacturing and service sector display sharp increases compared to the cyclical low points during this recession, and are firmly in territory that is indicative of expansion. The Institute for Supply Management (ISM) Manufacturing Index was reported at 56.5 during the month of February, and has been reported above 50 for past seven months (see Chart 1). Additionally, the ISM Non-manufacturing Index was reported at 53.0 in February, which follows two consecutive months above 50. For the ISM measures, a reading below 50 indicates contraction while a reading above 50 indicates expansion.

The challenges facing the job market are ubiquitous; however, government actions to stimulate the economy appear to be stabilizing the rate of job losses. In the most recent report, payrolls were reduced by 36,000 in

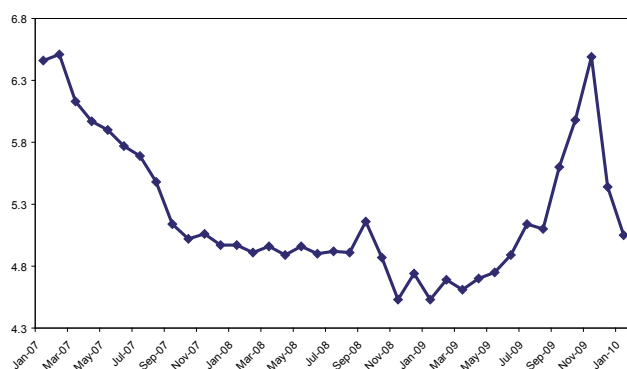
**Chart 1: ISM Manufacturing Index**



February compared to a loss of 26,000 jobs in January and a loss of 109,000 jobs in December. Additionally, many economists are anticipating a boost to job creation in coming months as a result of temporary hiring by the government in order to conduct the 2010 Census. Also, while the unemployment rate remains elevated, a surprise drop that occurred during January was maintained in February at 9.7%. For comparison purposes, the unemployment rate stood at 8.2% during February of 2009. Despite the improving trend, the economy has lost jobs during each month since January 2008 with the exception of November 2009, resulting in total losses of over 8 million jobs.

Following a much needed boost provided by the homebuyer tax credit, the housing market is once again experiencing significant declines. New home sales declined by 11.2% from the prior month during January, and follows declines during November and December as well. Additionally, existing home sales declined by 7.2% in January from the prior month, which follows a decline of 16.2% in December (see Chart 2). The sudden declines can be at least partially attributed to uncertainty surrounding the expiration and extension of the homebuyer tax credit as the government continues to pursue initiatives to aid the housing market.

**Chart 2: Existing Home Sales (units in millions, SAAR)**



Source: Bloomberg

### Maintaining Defensive Position

While lingering uncertainties present challenges to the global economy, we believe opportunities in the equity markets will persist over the near-term future, but that volatility will continue as well. As a result, we stand ready to adjust our defensive position in order to manage risk for our clients. Due to readings from our investment models, we are maintaining a small defensive position in the applicable funds and portfolios.

Our investment models have also remained relatively consistent since we transitioned into 2010 across the dynamic of large-, mid-, and small-cap companies. We have added to our position in small-cap stocks, and we have also maintained an overweight in mid-cap stocks. Additionally, our models have continued to indicate a preference for value investments, and we have responded by maintaining an overweight allocation toward value investments across all capitalization ranges. In terms of sector exposure, we have maintained an overweight to the industrial materials and energy sector due to model indications. We are also overweight the consumer staples and healthcare sector, while being underweight the technology sector. We will continue to closely monitor market conditions and our internal investment models, making select tactical shifts as necessary to take advantage of opportunities and protect against downside risk.

Our fixed-income portfolios are positioned to accommodate a rising interest rate environment. The duration of our fixed-income portfolios remain slightly below that of our benchmarks, which should provide a benefit in a rising rate environment. In accordance with our models, we also continue to favor the investment grade sector over government agency and U.S. Treasury securities.

*Thank you for your interest in our investment management services. For more information on our portfolios or investment strategies, including fact sheets and prospectus, please contact us at Toll Free 866-633-3371.*