



CONCORD ASSET MANAGEMENT
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Market Overview & Strategy Comments: Stocks Offer Frustration but Also Attractive Dividends and Excellent Appreciation Potential.

Stocks are now reaching levels of universal scorn with sentiment near record lows, continued mutual fund outflows and cash reserves on the rise. Optimism about the future, as indicated by consumer confidence, is at record lows. Just as stocks tend to overshoot on the upside when times are good – such as in the late 1990’s – they also overshoot on the downside when times get tough, such as today.

<u>Key Statistics</u>	<u>Current</u>	<u>Change Since Previous Month</u>	<u>2009 Change</u>
Dow Jones Industrial Average *	7062.93	-11.7%	-19.5%
S&P 500 Index *	735.09	-11.0%	-18.6%
S&P 500 Ave. P/E Ratio **	10.8x	0.0x	-0.3x
NASDAQ *	1377.84	-6.7%	-12.6%
1 Year Treasury Bill Yield	0.72%	+21 bps	+35 bps
10 Year Treasury Bond Yield	3.02%	+15 bps	+77 bps
30 Year Treasury Bond Yield	3.71%	+13 bps	+102 bps
Municipal Notes - 1 Year Yield	1.05%	+15 bps	-10 bps
Municipal Bonds - 10 Year Yield	3.45%	0 bps	-65 bps
Reuters/Jefferies CRB Futures	\$211.57	-4.0%	-7.8%
Gasoline NY RBOB (\$ per gal.)	\$1.28	+0.9%	+27.0%
Natural Gas (\$ per MMBtu)	\$4.20	-5.0%	-25.3%
Gold (\$ per troy oz.)	\$941.50	+1.5%	+6.6%

* price only ** based on 2008 earnings estimates.

The Reuters/Jefferies CRB Futures Price Index is an arithmetic average of commodity futures prices with monthly rebalancing.

Gasoline NY RBOB price excludes local, state and federal taxes (the “wholesale price”).

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Securities are identified for illustrative purposes only. This should not be construed as a recommendation to purchase or sell any securities.

Market Overview & Strategy Comments: *Stocks Offer Frustration but Also Attractive Dividends and Excellent Appreciation Potential.*

Stocks are now reaching levels of universal scorn with sentiment near record lows, continued mutual fund outflows and cash reserves on the rise. Optimism about the future, as indicated by consumer confidence, is at record lows. The market's huge fall last year has been followed by another double-digit drop this year as investors react to bank failures, falling profits and the expanding global recession. Clearly, the stock market today is more frustrating than it has been in generations.

But just as stocks tend to overshoot on the upside when times are good – such as in the late 1990's – they also overshoot on the downside when times get tough, such as today. And while we don't have a crystal ball to tell us exactly when the current bear market will end, on the basis of numerous market indicators, stocks rarely get more attractive than they are today, and patient investors should be aptly rewarded in time. As frustrating as the stock market is right now, the alternatives aren't much better – real estate prices are weak, money market fund yields are about zero and low risk Treasury bond yields are just a few percent. None of these alternatives will allow anyone to reach their long-term investment goals.

Furthermore, once a bear market ends, stocks tend to rebound rapidly giving investors little time to get back in if they have already thrown in the towel. Since the 1929 market crash, once the market hits bottom, the median 3-month gain has been almost 20% and the median 12-month gain has been 45%. In addition, with the 10-year rolling returns for stocks now at record lows, there is every reason to believe the returns for stocks over the next ten years should be average or above in order to get back to normal trend lines. Studies have also shown that market timing doesn't work, in fact most investors earn half the return of the averages because they get in and out at the wrong time. Consistent investing through good and bad times produces higher returns than near-impossible market timing.

Here are some other factors in the market's favor:

- The risk premium, the market's earnings yield less the risk-free rate of return, is substantially above the long-term average reading.
- Valuations are low relative to inflation. On a historical basis, current valuations are more typically seen when inflation is closer to 6%, not the near 0% of today. Stocks are now also trading well below the 17x P/E that is the 50-year average. This sort of valuation on normalized earnings would put the S&P 500 roughly 50-75% above current levels.
- Stock prices as a percentage of replacement book value stand at 1x, well below the 1.4x long-term average.

Another factor in the market's favor is that earnings are not as bad as reported in the news. Huge write-downs and losses at financial companies are playing havoc with the reported numbers. Furthermore, because of the fact that the S&P 500 is market weighted while its earnings are calculated in the aggregate, over roughly 5% of the capitalization of the S&P 500 is depressing earnings by about \$25 per share. In particular, a few smaller companies with enormous losses are overshadowing stronger companies out of proportion to their market capitalization. According to renowned market analyst and author Jeremy Siegel, if one adjusts and creates market weighted earnings, earnings are as much as 80% higher than the reported figures. While there is no arguing that profits are under pressure due to the recession, the drop appears to be materially overstated by problems at a minority of the S&P 500 companies.

Another good measure of value that is more tangible than earnings is dividends. The immediate payback on stocks is now very attractive with a record percentage of companies having dividend yields that are greater than the yield on the 10-year U.S. Treasury note. At 45% of these companies, that is over 4x higher than in 2002. For one of the few times in modern history, stocks now yield comfortably more than Treasury bonds and money market funds. The yield on the S&P 500 is roughly 3%, but many well managed companies within the index show even higher yields. Furthermore, dividends are taxed at only a 15% rate, offering yet another advantage.

For instance, at the end of February *Novartis* announced a 25% dividend hike for a 4% current yield and *Colgate* increased its dividend 10% to yield 3%. *Becton Dickinson* has been increasing its dividend roughly 15% a year since 2003 and currently yields 2%; *America Movil* has consistently paid a higher dividend each year, *China Mobile* hiked its dividend last year 50% to a 4% yield, and *Johnson & Johnson* currently yields nearly 3% and is likely to raise its dividend soon after a 10% bump last year. *Coca Cola* just announced an 8% dividend increase to yield almost 4%. Dividends are important not only because they represent a predictable and immediate return on stocks but also because, after inflation, dividends have accounted for about 2/3 of the total return provided by stocks since 1900. Further, since 1972, consistent dividend increases on stock have led to about 3% a year higher return than the averages.

There is no guarantee that the markets will recover or when that might happen. Although, investors should grow more comfortable with the outlook for profits and prices should stabilize and rebound. When this happens, we expect investors to gravitate first to those companies paying a dividend yield materially higher than the return currently available on alternative investments. Our focus will continue to be to hold above average levels of cash and identify investments where the current return is attractive, providing us with a steady and growing income stream while we wait out this bear market.

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CORE HOLDINGS LIST FOR 2009

Source: FactSet, First Call, Value Line, Bloomberg & CAM Estimates.

			Recent	2008	2009	2008	2009	Est EPS	P/E to	Market		Div
March 1, 2009	<u>Company Name</u>	<u>Ticker</u>	<u>Close</u>	<u>EPS</u>	<u>EPS</u>	<u>P/E</u>	<u>P/E</u>	<u>Growth</u>	<u>Growth</u>	<u>Cap(\$mm)</u>	<u>ROE</u>	<u>Yield</u>
	Standard & Poors 500	SPX	735.09	\$67.87	\$60.00	10.8x	12.3x	8%	-	6,400,546	14%	3.3%
Financials:	Berkshire Hathaway Cl "B"	BRK/B	2564	\$185.36	\$188.40	13.8x	13.6x	10%	1.4x	-	12%	0.0%
	MasterCard	MA	158.03	\$8.61	\$10.41	18.4x	15.2x	16%	0.9x	15,568	-	0.4%
Consumer Staples:	Coca Cola	KO	40.85	\$3.15	\$3.13	13.0x	13.1x	8%	1.7x	94,554	28%	3.2%
	Colgate Palmolive	CL	60.18	\$3.87	\$4.23	15.6x	14.2x	10%	1.4x	30,374	93%	2.6%
	Diageo Plc ADR	DEO	46.49	\$4.00	\$4.18	11.6x	11.1x	8%	1.5x	29,051	40%	4.4%
	Fomento Economico Mexico	FMX	23.04	\$1.51	\$1.96	15.3x	11.8x	19%	0.6x	4,979	14%	1.5%
	Walgreen Co.	WAG	23.86	\$2.12	\$2.18	11.2x	10.9x	11%	1.0x	23,544	18%	1.8%
Health Care:	Becton Dickinson	BDX	61.89	\$4.58	\$5.05	13.5x	12.3x	12%	1.0x	14,836	24%	2.1%
	Johnson & Johnson	JNJ	50.00	\$4.55	\$4.52	11.0x	11.1x	7%	1.7x	138,290	30%	3.1%
	Medtronic, Inc.	MDT	29.59	\$2.82	\$3.11	10.5x	9.5x	11%	0.8x	33,088	20%	2.5%
	Novartis AG	NVS	36.25	\$3.80	\$4.07	9.5x	8.9x	8%	1.2x	95,831	16%	2.8%
	Zimmer Holdings	ZMH	35.02	\$4.05	\$3.90	8.6x	9.0x	11%	0.8x	7,864	15%	0.0%
Consumer Discretionary:	Staples, Inc	SPLS	15.95	\$1.37	\$1.35	11.6x	11.8x	14%	0.8x	11,379	19%	1.9%
	Target Corp.	TGT	28.31	\$2.90	\$2.45	9.8x	11.6x	13%	0.9x	21,309	15%	1.9%
	Toyota Motor Co. ADR	TM	63.14	\$1.81	\$1.25	34.9x	50.4x	3%	16.8x	108,853	14%	4.5%
Technology:	Cisco Systems	CSCO	14.57	\$1.28	\$1.07	11.4x	13.6x	13%	1.0x	85,045	24%	0.0%
	EMC Corp.	EMC	10.50	\$0.77	\$0.72	13.6x	14.6x	12%	1.2x	21,428	11%	0.0%
	Fiserv, Inc.	FISV	32.62	\$3.29	\$3.63	9.9x	9.0x	16%	0.6x	5,224	14%	0.0%
	Google	GOOG	337.99	\$16.68	\$19.09	20.3x	17.7x	21%	0.8x	81,215	17%	0.0%
Industrials:	3M Co.	MMM	45.46	\$5.17	\$4.13	8.8x	11.0x	13%	0.9x	31,540	32%	3.0%
	ABB Ltd. ADR	ABB	12.05	\$1.49	\$1.19	8.1x	10.1x	10%	1.0x	27,908	28%	0.0%
	Danaher Corp.	DHR	50.76	\$4.23	\$3.78	12.0x	13.4x	13%	1.0x	16,177	14%	0.2%
	General Electric	GE	8.51	\$1.80	\$1.23	4.7x	6.9x	9%	0.7x	89,942	16%	7.2%
	United Parcel Service	UPS	41.18	\$3.50	\$2.87	11.8x	14.3x	11%	1.3x	27,900	3%	3.3%
Energy:	Apache Corp.	APA	59.09	\$11.22	\$3.70	5.3x	16.0x	8%	2.0x	19,778	20%	0.8%
	Petroleo Brasileiro S.A. ADR	PBRA	22.38	\$4.29	\$2.51	5.2x	8.9x	8%	1.1x	41,411	24%	2.9%
	Sasol LTD ADR	SSL	25.13	\$4.06	\$3.52	6.2x	7.1x	15%	0.5x	16,002	32%	5.5%
Telecom Services:	America Movil ADR	AMX	25.48	\$3.01	\$3.06	8.5x	8.3x	9%	0.9x	26,586	46%	1.8%
	China Mobile Hong Kong	CHL	43.35	\$4.01	\$4.39	10.8x	9.9x	16%	0.6x	173,877	25%	3.9%
Transportation:	Kansas City Southern	KSU	17.69	\$1.86	\$1.62	9.5x	10.9x	20%	0.5x	1,620	10%	0.0%
Exchange Traded Funds:	iShares MSCI EAFE Index	EFA	34.68	-	-	-	-	-	-	22,910	-	4.6%
	iShares MSCI Emerging Mkts	EEM	21.23	-	-	-	-	-	-	16,891	-	1.9%

0% weighting in utilities and materials.

The above is a list of common stocks currently held in clients' portfolios. Not all stocks are held in all portfolios for various reasons. Upon request we will furnish a list of all equity recommendations made within the past twelve months. This list includes the name of the security, date and nature of the recommendation, price at which the recommendation was acted upon, and the current market price of the security. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list.

Please contact Mickey Herst for a copy of the list.