

From the desk of Steve Cordasco

2010 OUTLOOK

The following is my 2010 outlook for the economy and the investment environment. Continued economic weakness and deflation will be the main theme, at least for the first part of the new year. I'm betting on weak economic growth in the US and as well as overseas, look for more government stimulus and Fed policy ease to be part of this year's news. Low inflation and deflation will be the dominant story. The following is my outlook for the following categories:

The Economy - The economy in 2010 is likely to avoid the deep borderline-depression type of crisis we experienced last year. I expect a very slow, anemic growth economy for the year. Regarding interest rates, it's too soon to fret about when the Federal Reserve will raise rates, watch for easing before tightening. The mere anticipation of the Fed tightening cycle could impact the financial markets. Core inflation should remain moderate in 2010, although higher food and energy prices will cause headline inflation to rise.

Earnings - Wall Street is forecasting a broad range of earnings growth for 2010. Estimates range from an increase of 20% - 35% in earnings.

Valuations - Valuations will not drive the market. Expect modest gains in the US equity markets. The three potential market catalysts that remain are earning growth, mergers and acquisition activity, as well as money flows.

Growing US debt and other sovereign debt can create a counter-trend rally in the US dollar. Also, a policy mistake by the current administration could have serious effects on all markets.

Strategy - It is important to think tactically in an environment like this. We are looking to use smaller portfolios as opposed to large baskets like indexed portfolios, and taking a balanced approach with sector concentration on

cyclical and defensive type strategies. The days of “set it and forget it” investing are over for now, paying attention to fees and keeping expenses down are a must.

Bonds - Long -term bonds outperformed stocks over the past twenty years.** We are now starting to shorten the duration in our bond portfolios. While we are still looking to invest in bonds, the strategy now is to use a laddered approach with a balance of short, intermediate, and long - term bonds. Treasury bonds sold off the latter half of the year pushing the 30 year yield bond to 4.7% at the end of 2009. With long -term treasury yield floating between 4.5 and 5% we are dipping our toes back into long- term bonds. In the event the US and the globe face a crisis, treasuries should come out ahead. If the economy falls into another near depression, treasuries should be the best performer. Today treasuries are a trade at best. Avoid long- term treasuries if rates go from 4.5 % to under 3%. This will be our strategy throughout the year. The closer the long-term bond goes to 3% or under, the more we’ll be taking profits. At 5% we feel its ok to be buying back longer- end bonds. Here’s an interesting statistic to keep in mind: if long- term bond rates go from 4.7% yield today to under 3%, then the principal on bonds would appreciate by more than 34% , not including interest. It’s very important to pay attention to the volatility within the yield curve. I expect large federal deficits for many years to come. Pressure on the government to create jobs and fight unemployment in a slow economy will make it difficult for the Fed to increase interest rates or for the administration to do something that would be counter-growth to business. As slower economic growth makes job security less certain, repaying debt should be the public’s choice in 2010 and beyond. If you are a business owner that relies on consumer spending, you will need to adjust to changing trends.

** From The New York Times, October 25 article written by Jeff Sommer

Income producing securities - Investments like high quality corporate bonds, municipal bonds, floating rate funds, and dividend paying stocks might become the investment of choice for long-term investors seeking investment income and cash flow. Utilities and consumer product companies, health care firms, and master limited partnerships, royalty trusts,

some select REITS and natural resource stocks are the areas to build portfolios around especially for individuals heading into their retirement years. Many retirees will need cash flow and an income producing strategy to help keep up with rising cost of food, energy, healthcare, and taxes. The prices on everything else should be falling.

The dollar is likely to show strength early in the year, and may hold through the summer as the dollar remains the world's least weak currency. As the US economy shows signs of stability and rebounding, the dollar will gain some strength. I believe this is a short- term cyclical move in what is a longer term bear market trend for the US dollar. We will be adding to our positions of metals, mining, hard assets, real assets, foreign stocks and bonds as the dollar strengthens. This is because as the dollar strengthens, these types of asset classes will weaken, providing a value for many of our portfolios. I believe that over the long-term, real assets will reward investors. For our fully invested portfolios we will hold our positions and continue to collect dividends while we wait through this short term cycle.

I am underweighting US stocks as well as index investing. We are overweighting all cap* and seeking out those portfolio managers that avoid financial stocks. I am concerned about commercial and residential real estate, junk bonds, and pure play commodities that don't pay dividends. In the area of hedging and alternative investment, I am looking at certain types of ETF's (exchange traded funds) that protect investors in a down market. At various points in the year we may end up using ETF's that have hedging positions against the market. Another strategy I may use to hedge portfolios would be to go long on utilities. These stocks tend to be defensive in a bad market. They also pay decent dividends in case we are wrong. It's an asset class that will pay you to wait.

My advice: You need to get a plan that is tailored to your personal needs. Make sure your advisor or person that you are using to handle your portfolio builds you a plan through understanding the tax code and can analyze your personal tax return. A CPA designation is a must. Today, taxes and the fast shifting tax code can take a big chunk of your nest egg. Be sure **cash flow** is a large component of your plan along with a personal risk profile. Finally you need to demand that a “**stress test**” be done on your assets to determine

* Managers who can invest in any type of stock or bond, anytime, anyplace.

the change of your assets over time in relation to changes in inflation, taxes, life expectancy and income needs.

The following is a process that I, together with my team, use to engineer a long term financial plan.

Step 1 - Gathering Data We request you to send us your current financial statements and tax return. We also take a look at your insurance and banking statements to make sure you are positioned with the best program for your goals and objectives. We request that you complete a **risk profile** questionnaire. This will outline for you and us your comfort level with risk. This information is vital when building a portfolio for you. Your cash flow needs must be considered today and in the future.

Step 2 - Analyze the data Jim Tate, CPA works with me to analyze your tax return to review strategies to minimize taxes and maximize cash flow. We use CFA's which are certified financial advisors. Darren Young is a CFA who works directly with me to help put together portfolios of ETF's as well as separately managed investment accounts. Our CFP, Liz Jacovino adds input on estate planning and inheritance structures. Steve Mangine reviews all necessary insurance policies.

Step 3 - Develop a plan. My team designs a comprehensive financial plan that is developed just for you. We present you with the proposal for you to take with you.

Step 4 - Implement the plan. Jim Tate, Georgine Rickards, Nicole Ricci and David Zane upon your approval, will transition your current investment program to our team and execute your plan.

Step 5 - Monitoring your plan. We monitor your plan and send performance reports monthly. We offer quarterly conference calls and hold an annual comprehensive meeting. You have online access 24/7 to review your account activity and we offer E-Money Advisors, a state-of-the-art account system at no additional cost.

Step 6 - Adjustment the Plan We make adjustments to your plan based on your changing needs, market conditions, taxes law changes, and other factors specific to your own personal situation.

To request a consultation please email me directly at Steve.Cordasco@rbc.com or call at 215-569-1234.

A handwritten signature in black ink, appearing to read "Steve Cordasco", written in a cursive style.

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