

December 31, 2010

2010 Year End Review

2010 was a good year for investors as both stocks and bonds turned in nice gains for the year. The stock market ended with a strong December, following up on strong gains during the third quarter. Bonds outperformed our expectations, even with a sell off late in the year. Stocks have benefited from improving economic conditions since the melt down two years ago and have regained most of what was lost during that time.

Since the bear market low set in March of 2009, the S&P 500 has gained over 93%, proving once again that buying stocks when things look bleak is the best way to create long term wealth. Additionally, if you were not invested for the three best days of 2010, you would have given up 78% of the year's gains. As is almost always the case, being in the market during the best days is much more important than being out of the market during the worst days.

Most economic measures continue to improve. New jobs are being created at an increasing rate. Small businesses, which are where most new jobs are created, have increased their rate of new hiring. In addition, last month's index of service sector activity rose for the twelfth straight month and is at its highest level in more than four years. Consumer sentiment has improved dramatically, leading to strong consumer spending. From an economic standpoint, the recovery in the U.S. looks like it is increasing its pace. Also a positive is the lack of inflation we have seen up to this point. Keeping the economy expanding while keeping inflation in check will be important for both the stock and bond markets as we move forward.

Given the improving economic conditions, we are generally optimistic about the outlook for the stock market in the upcoming year. Valuations remain reasonable and most forecasts call for healthy gains in S&P earnings. As the panic from two years ago continues to subside, earnings will be key in the year to come. We are less optimistic about the outlook for the bond market than we are for the stock market. As the economy improves, we expect interest rates to increase, resulting in lower bond prices. We continue to keep our bond maturities short to protect us as much as possible against rising rates.

All of us at Wabash Capital wish you a happy and prosperous New Year. Every year, we make available to you an updated copy of our Form ADV, which has information about Wabash Capital that is on file with the SEC. Please contact us if you would like an updated copy.

Wabash Capital