

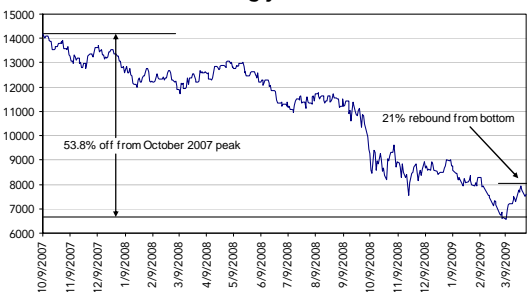
Trillions became the new billions in March. The President, Federal Reserve, and Treasury Department rolled out plans to spend or create trillions of dollars to support new initiatives in ongoing attempts to revive an economy hampered by tight credit. As the unemployment rate rose to 8.1% in February, President Obama asked other world leaders to increase their bailout efforts. The requests were firmly rebuked by European countries, many of which stated that additional government spending and influence on their economies would not be beneficial. In a press conference, President Obama hinted at the likelihood that his middle-class tax cuts will be rescinded in 2010, as his priorities of healthcare, alternative energy, and low-income spending take precedence over tax relief. General Electric's credit rating was downgraded by S&P, leaving only six companies with its top rating. Mounting losses in GE's finance division prompted the downward revision. GM CEO Rick Wagoner was forced to resign as restructuring efforts progressed slowly and the company heads toward a likely bankruptcy.

Remaining AAA Rated Companies



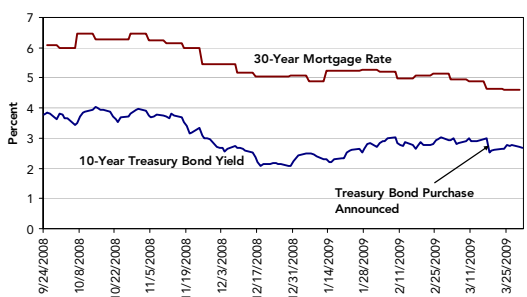
As rated by Standard and Poor's
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Dow Jones Rebounds Strongly



Source: Bloomberg

Mortgage Rates Drop Below 5%



Sources: Barclays, Mortgage Bankers Association

Market Returns

As of March 31, 2009

	March	3 Months	1 Year
S&P 500	8.8%	-11.0%	-38.1%
Russell 1000 Value	8.6%	-16.8%	-42.4%
Russell 1000 Growth	8.9%	-4.1%	-34.3%
Russell 2000	8.9%	-15.0%	-37.5%
MSCI EAFE	6.3%	-13.9%	-46.5%
Barclays Agg	1.4%	0.1%	3.1%
3-Month T-Bills	0.0%	0.0%	1.2%

A root cause of distress in the banking industry is the diminishing value of capital reserves. The evaporation of demand for packaged securities, such as CDOs and MBSs, forced banks to retain the loans that they originated. As mortgage defaults rose, those asset values fell, and capital reserves fell to dangerous levels. Citing the potential damage to the economy at large, the Treasury gave billions to the banking system to bolster reserves. The capital injections were intended to free up additional monies for lending, after loan financing from non-traditional sources (sovereign wealth funds, hedge funds, non-bank financial institutions, etc.) diminished significantly. However, with levels of defaults on credit card, auto, and student loan debts rising, banks have remained hesitant to lend out their reserves.

Given this background, the Treasury introduced the TALF (Term ABS Loan Facility), which initially provides \$200 billion in loans to banks, against which credit card, auto, and student loan debts will be accepted as collateral. The Treasury's long term goal is to restart the securitization markets and reintroduce private capital into the banking system.

In a redress to his vague announcement in February, which sent stock markets spiraling downward, Secretary Geithner announced the Public-Private Investment Program. The plan is intended to partner private investors with the government to purchase toxic assets from banks. It will allow private investors to leverage investments 6-7x, with the necessary capital provided by the Treasury. Private risk would be limited to the initial investment, while taxpayers would shoulder the rest of the losses, potentially 85% if losses are catastrophic. The federal government would share in the profits if the securities gain in value.

In an unexpected turn of events, Citigroup stated that, excluding potential asset writedowns, it was profitable in January and February. The news sparked a rally that sent the Dow Jones up 21% over thirteen trading days. The rally ended the worst continuous fall in the index without a 20% rebound, surpassing the fall of 53.6% in 1932.

Contributing to the exuberance was a new plan from the Fed and Treasury to drive down home mortgage rates. The Federal Reserve will create nearly \$1.15 trillion, and use \$850 billion to purchase mortgage-backed and agency debt, freeing up capital to provide additional lending. The Fed will purchase \$300 billion of intermediate-term Treasury debt, against which mortgage markets base interest rates, in order to keep mortgage rates low. The move sparked a huge drop of 50 bps on 10-year Treasury bonds, and pushed mortgage rates below 5%. The Mortgage Bankers Association reported a surge of applications in March, with nearly 79% of the activity representing refinancing activity.

Bonus payments at AIG sparked a furor after the company received \$180 billion in bailouts from the federal government. AIG also sued the IRS for \$306 million, which the company claims was overpaid in taxes and penalties.