

From the Bloom Investment Committee

April 2010

The Quarter in Review

What a difference a year makes. The first quarter of 2009 was characterized by so-called financial experts claiming that investors should sell everything and go to cash or even gold. You will recall that we took a very different approach. We suggested that our clients should separate emotions from investing and instead follow a disciplined rebalancing strategy. Because of the extreme weakness in stock-based investments, many rebalancing programs called for adding to that very asset class and taking some profits in their bond funds. Not only did that strategy serve our clients extremely well during the remaining 9 months of 2009, but during the first 3 months of 2010 as well. We should note that as we had expected, both cash and gold underperformed the equity market significantly. More specifically, domestic large cap stocks, as measured by the S&P 500, grew 50% (3/31/09 – 3/31/10) while gold and cash rose by 22% and .30% respectively.

When establishing and modifying our investment strategies, we take several economic and financial market factors into consideration. Among other things, we carefully monitor how our economy's growth rate is holding up, the current levels of both inflation and interest rates, and the current health of the job market. Within the financial markets, we are watching how both certain asset classes and certain styles within those classes are performing in light of the current economic landscape.

Economy

GDP

The first quarter of 2010 brought with it the final report on Q4 '09 GDP. At an annualized growth rate of 5.6%, the 4th quarter was much stronger than the 3rd quarter's 2.2% rate. At the root of this acceleration was an increase in private inventory investment, an increase in non-residential fixed investment, rising exports, and falling imports. This recovery in GDP was anything but linear. More specifically, the first two quarters of 2009 showed losses of 6.4% and .70%, respectively. Stringing the quarters together gives us an annual loss of 2.4%. This compares to an annual gain of .40% for all of 2008. While we are obviously pleased to see positive GDP growth during the second half of 2009, this does not mean that the recession is officially over. The responsibility for that proclamation rests with the National Bureau of Economic Research (NBER). As we write this, the NBER is actively discussing whether or not to hold off on making this announcement. While many of the board members of this organization are encouraged

by the improvement in both GDP and job growth, they are still mindful of the potential for a backslide into negative growth. Any backslide would likely be a result of a deterioration in consumer spending, retail sales, payroll growth, and/or industrial production.

Employment

Employment continued to dominate the spotlight as the global economy watches for signs that our employment situation is on the mend. For the first quarter, there were a total of 162,000 jobs added to payrolls across the country. The last time our economy experienced this level of job growth in a single quarter was the 4th quarter of 2007. We should point out that the loss (-14,000) in February offset the small gain (+14,000) in January. For the month of March, the job sectors that drove most of gains were the federal government (+48,000) due to the 2010 census, temporary help (+40,000), health care (+27,000), and manufacturing (+17,000). While we are encouraged that there was growth in March, roughly half of the total (88,000) jobs added are temporary in nature. However, the growth in manufacturing jobs during the 1st quarter (+45,000) was a very welcome shift. The financial sector lost the most jobs (-21,000) during the month.

The national unemployment rate was stuck at 9.7% for the entire 1st quarter. As we have explained in the past, any change for the better will likely be many months away. This delayed improvement will likely play out because of the dynamic nature of the unemployment rate formula. More specifically, the official unemployment rate does not include those “discouraged workers” who have stopped searching for a job. As of the end of March, there were approximately 1 million discouraged workers who had not looked for work in the past 4 weeks as they believe there are no jobs available for them. As a result, the unemployment rate could actually rise if there is a surge in the ranks of those looking for a job. This surge could be sparked by a few months of positive job growth.

Inflation

While everyone is concerned with the directional moves in the value of the US Dollar, consumers and market watchers have different reasons for their concern. Consumers tend to focus on how their personal purchasing power is being affected. Said differently, consumers want to know by how much the price of the goods and services they wish to purchase is expected to rise. Market watchers on the other hand, often look to inflationary pressures for a clue as to how the Fed will act with respect to interest rates. More specifically, they will anticipate a hike in interest rates if they determine that inflation is rising too fast.

Over the past 12 months (ending March 31st), inflation, as measured by the Consumer Price Index (CPI), has been fairly stable and close to its long-term average. More

specifically, the CPI (seasonally adjusted) came in at a 2.39% annual growth rate. Over the past 20 years, that average has been 2.67%. However, the job market has been a major detractor from CPI. Since wages are a significant contributor to inflation, the steady decline in jobs has worked to keep inflationary pressure to a minimum.

Despite relatively tame inflation over the past year, we believe that longer-term higher inflation is unavoidable due to the massive deficit spending our country is undertaking. The confluence of fiscal and monetary stimuli, while well intended, will ultimately have to be paid for at some point.

Interest Rates

Since the Fed reacted to the developing financial crisis by cutting rates in September of 2007, many have been trying to predict the next directional move in rates. Beginning with the rate cut in 2007, the Federal Reserve has cut its target for Fed Funds 10 times or 4.50 – 4.75%. In fact, the Fed has left its target for Fed Funds, currently at 0-.25%, unchanged since December of 2008. This historically low target has been left in place to help ease the impact from the so-called “credit crunch.” Of course all good things must come to an end. In this case, they will come to an end once the Fed begins to take back some of these rate cuts. Fed Chair Ben Bernanke will have to weigh his decision based on his view of where the greatest risk lies. More specifically, on his view of whether there is a greater risk to economic growth or price stability. If the greatest risk appears to be to economic growth, he will likely leave rates unchanged. On the other hand, if the greatest risk is to price stability (read: inflation) they will have no choice but to raise rates. It is this theme that has been gaining more and more attention in light of the unprecedented levels of government spending. In other words, more and more people believe that the surge in government spending will lead to higher inflation at some point in the not too distant future.

While predicting Fed policy is akin to predicting the stock market, the consensus is that the Federal Reserve will leave their target for Fed Funds at its current, historically low level for the foreseeable future. To help ensure that we don't fall back into another severe recession, policy makers will likely be more patient in their efforts to keep a lid on inflation. Said differently, they don't want to begin raising rates too soon and end up hindering or stopping all together, any recovery. Finally, when they do decide it is time to start applying the brakes (raising rates), they will not only do so in an orderly fashion, they will also very clearly telegraph that they intend to do so.

Housing

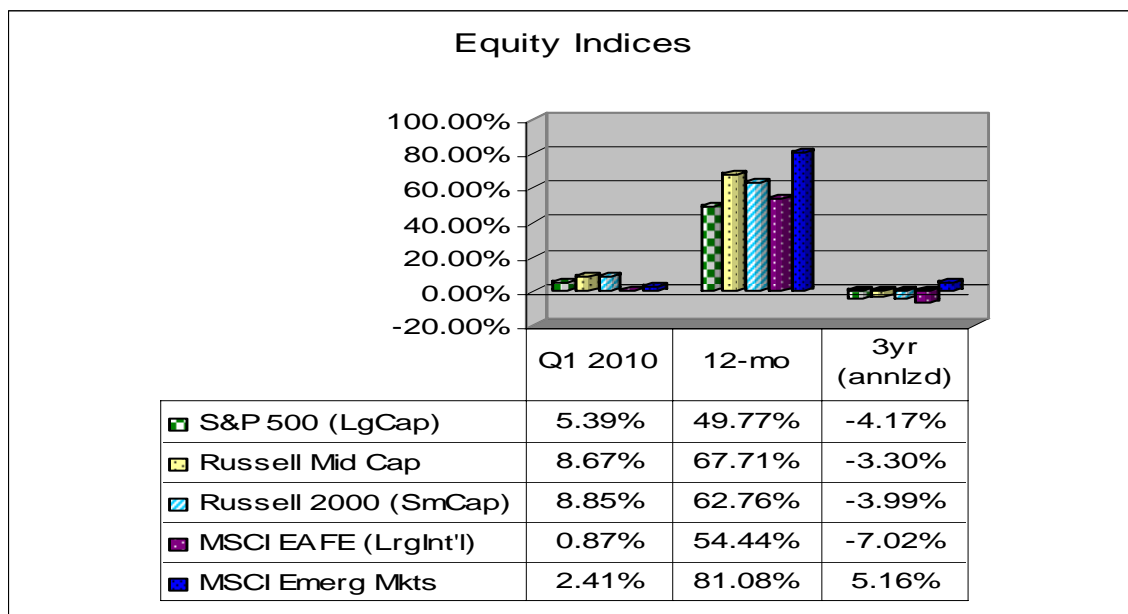
The housing market was kept in the limelight during the 1st quarter. Since the recession began, we have been navigating through the perfect storm of falling home prices, rising foreclosures, and tighter lending standards. Additionally, recent reports have pegged the percentage of homeowners who are underwater on their homes at close to 25%.

There are, however a few bright spots hiding in the residential real estate market. One saving grace is that mortgage rates were little changed, at roughly 5.20% for a conventional 30-yr fixed-rate mortgage. These low rates will translate into lower payments for those able to take advantage of a mortgage re-fi. The silver lining within the cloud of falling home prices, is that affordability has risen in a meaningful way. In other words, the combination of depressed prices and very low mortgage rates has resulted in incomes moving back in line with the median mortgage payment. This scenario offers a stark contrast to the low level of affordability that existed during the peak of the housing boom.

Financial Markets

Equity Market

The 1st quarter of 2010 was a welcome deviation from 2009. The first three months of 2009 were characterized by extreme emotions. To refresh your memory, the S&P 500 was down more than 18% after the first two months of the year and then rallied in March to leave the index down 11.01% for the quarter. As you can see from the table below, in 2010, the S&P rose 5.39% during the first quarter. It was encouraging to see broad participation in the general rise in the equity market. Remember, it was just a year ago that investors were avoiding risk as if it were the Swine Flu. While both international categories (developed and developing) posted gains for the quarter, their relative underperformance was due mainly to the stronger US Dollar.



Another trend that was comforting was that both individual and institutional investors were in a buying mood. We gauge this participation by looking at the amount by which these two investor groups have drawn down their money market balances. When looked at over a 12-month period (ending March 2010) individual investors drew down their balances by 27% (to \$747 Billion) while institutional investors took theirs down by 19% (to \$1.99 Trillion). Combined, there is still roughly \$2.74 Trillion of liquidity sloshing around investment accounts, this is down approximately 21% (from \$3.52 Trillion) from just a year ago. The bottom line is that there is still plenty of fuel to keep the growth engine running.

Some of the less obvious trends during the past quarter were how the different styles performed. Here is a brief list of those trends:

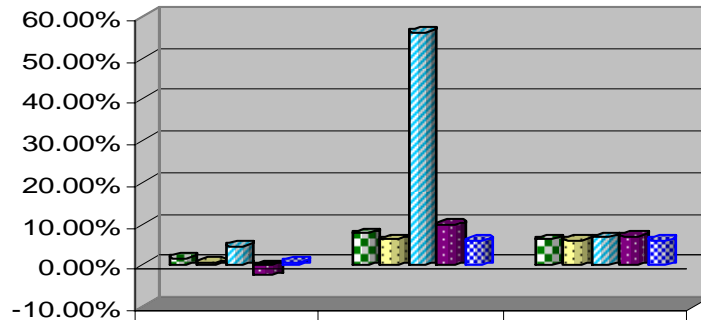
- ✓ Large Cap Domestic Stocks – Value outperformed Growth
- ✓ Small Cap Domestic Stocks – Value outperformed Growth
- ✓ Domestic Stocks – Small Caps outperformed Large Caps
- ✓ Large Cap Stocks – Domestic outperformed Foreign
- ✓ Small Cap Stocks – Foreign outperformed Domestic
- ✓ Foreign Stocks – Emerging Markets outperformed Developed

Our clients have experienced the benefits of having exposure to virtually all of the above styles. This is due to our strategy of maintaining specific allocations, depending on the appropriate risk profile, to these asset classes. Our strategy also calls for selecting only those mutual funds that have passed our stringent due diligence, to establish this exposure. We are happy to say that many of our recommended funds actually outperformed the above index returns. The funds' managers were able to accomplish this goal with superior stock-picking abilities and/or sector weights/plays.

Fixed Income Market

The bond market was much more muted than the equity market during the first three months of 2010. While high yield (aka "Junk) bonds took first place in the performance contest, investment grade bonds, as measured by the Barclay's Aggregate turned in a solid 1st quarter. Reviewing the past three years illustrates a fairly even performance contest with the performance spread less than 1% annually. Treasury Inflation Protected Securities (TIPS) lagged the domestic bond market as investors lowered their inflation forecast. Foreign bonds lagged the global fixed-income market due to both a stronger US Dollar and general concern about foreign debt. You will recall that a stronger Dollar reduces the Dollar-based returns of foreign investments. In the tax-free segment, municipal bonds continued to show stable, yet positive results. We believe that municipal bonds will continue to benefit from strong demand due to the high probability that taxes will increase for most investors.

Fixed Income Indices

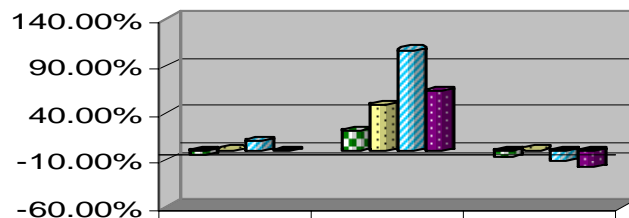


	Q1 2010	12-mo	3yr (annlzd)
Barclays Aggregate	1.78%	7.69%	6.14%
Barclays US TIPS	0.57%	6.18%	6.01%
Barclays High Yield	4.62%	56.18%	6.65%
Citi Wld Gvt Non USD	-2.41%	9.81%	6.96%
Barclays 5-yr Muni	0.77%	5.91%	6.05%

The bond funds that we utilize in client portfolios are designed to mirror the above strategies. Additionally, many of our funds offer enhanced methods of gaining this exposure. For example, our recommended foreign bond fund also maintains some exposure to emerging market bonds. The inclusion of developing market debt has allowed this fund to outperform its benchmark by a healthy margin.

Alternatives Market

Alternatives Indices



	Q1 2010	12-mo	3yr (annlzd)
DJ-UBS Cmdty	-5.03%	20.53%	-6.88%
S&P Nat Resources	0.49%	48.62%	0.89%
FTSE/NA REIT Eq(US)	10.02%	106.68%	-10.60%
DJ Glbl Sel REIT	-0.92%	63.53%	-16.64%

The first quarter was a very lopsided period for the alternative asset class segment with only domestic REITs and natural resources posting gains. The difference between foreign and domestic REITs was significant. We attribute this near 11% spread to both extremely attractive valuations here in the United States and a stronger Dollar. The slight gain in the natural resources sector was due in part to the 5½% gain in oil. Commodities brought up the rear with a loss of just over 5%. This decline was a result of the Dollar's strength and lower risk of any near term inflation. Some of the commodity standouts for the quarter were; Natural Gas (-34%), Sugar (-26%), Nickel (+35%), and Palladium (+19%). Precious metals were very tame in light of the subdued inflation fears, with Gold and Silver gaining 2.6% and 3.9%, respectively.

Looking Forward

While no one can predict what the remaining three quarters of 2010 will look like, we will be keeping our eyes on several themes:

- ✓ Corporate Earnings – we will be paying attention to not only a company's ability to beat their revenue and earnings estimates, but also to their forecasts. While the past quarter is definitely important, we want to get a flavor for how companies see the economy and how they plan to succeed in it. Any mention of a dividend hike and/or share repurchase plan will be viewed favorable by both strategists and investors.
- ✓ Employment – since consumer spending makes up over 2/3rds of our GDP, we will be studying the health of the job market. After all, those who are unemployed will likely be very frugal. While the 162,000 jobs added is a positive sign, our economy needs 200,000+ new jobs added each month to merely absorb population growth. The next few months will help solidify any trend that is forming.
- ✓ Interest Rates – there seems to be a growing number of Federal Reserve governors who believe that we must begin to gradually raise interest rates. Their premise is that these higher rates will not only curtail any inflationary pressures, but strengthen the dollar as well. The latter scenario should act to not only preserve our purchasing power, but also to keep our borrowing rates in check.
- ✓ Global Economies – as the economy and financial markets become increasingly global in nature, we will continue to monitor the health of both foreign and domestic economies. Of special interest to us will be if China agrees to stop manipulating the Yuan. In addition, we will be studying how the economic crisis in Greece is treated. Given that they have very high levels of debt-to-GDP, any rescue plan will be looked at as the standard for any other emerging markets that run into trouble.

Bloom Asset Management will continue to remain focused on our clients and strategies to ensure that they are both positioned to benefit from the coming improvements in the financial markets. It is this focus that will help our clients weather any further near-term volatility, and allow for a renewed emphasis on long-term success.

If you are frustrated with your current investment advisor, contemplating retirement, concerned about the quality of your portfolio, or need help devising an income withdrawal strategy, please contact Delilah Caputo at 248-932-5200 or e-mail: Delilah@bloomassetmanagement.com to schedule a complimentary meeting with one of our financial advisors to see if Bloom Asset Management is the right firm for you. If you are an existing client and have questions regarding your account, please contact your Bloom Asset Management Advisor.

Bloom Asset Management provides two distinct fee-only services that includes individualized money management, using primarily no-load, load-waived, and no-transaction-fee mutual funds and financial consultations that include advice on estate planning, risk management, taxes, and investments.

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