

BLUE GRANITE CAPITAL, LLC

INVESTMENT COMMENTARY

May, 2010

Had we told you the S&P 500 index would appreciate over 75% from its' recession lows set March 9, 2009, you may have been very skeptical. The pendulum swung too far during the financial crisis and just as predictably has overreached on the upswing. We are now at a critical juncture, challenged with predicting the equity market's direction and how to best position investment strategies after such a significant rise. Historical market performance has had a pattern of extreme upward and downward moves, registering percentage gains and losses that appear to be over-reactions. However, the most important piece of the puzzle is how well the markets will perform after such elaborate moves. It is quite likely the massive gains and losses recorded over the past two years are a thing of the past as the equity markets return to a pattern of more normal, less volatile movements.

Without a sustainable economic recovery or the catalysts required to spur economic growth, a market correction is a very likely scenario. Unemployment is still running too high to stimulate consumer spending; a major component of GDP growth. The threat of inflation and higher interest rates also pose risks for the equity markets. In many cases investors have recouped most or all of their investment losses so they should now focus their investment strategies on capital preservation, asset allocation and risk management. Blue Granite Capital adheres to these 3 essential investment principles by developing comprehensive asset allocation strategies. Protecting our clients' money, growing it prudently and minimizing investment risk are what we practice to create peace of mind.

Without a doubt investing can be a confusing and stressful endeavor. Predicting market direction and accurately timing the move are generally an exercise in futility. This practice has taken down many successful investors but made others wealthy beyond their dreams. An overload of instantaneous global information has complicated this process in a very significant way. Rather than attempting to speculate on the timing and direction of the markets, crafting a well-diversified asset allocation strategy is a more prudent and profitable approach. Since predicting the future is at best guesswork, developing a sound portfolio strategy will protect your capital and enhance your long term performance returns. Prudent investment strategies are quite honestly the only solution.

While an "ugly" healthcare reform debate monopolized the airwaves during the past year, badly needed economic revitalization has taken a backseat when it is most needed. Without a dramatic economic turnaround, the capital markets have no chance of duplicating the past 12 month's performance. Stock market gains of 75% should not be taken lightly, nor should the missing ingredient to keep equities moving up, sustainable economic growth.

The Dow Jones Industrial Average is still 22% below its October 2007 peak of 14,164. Stock valuations on the other hand are now approaching the lofty levels seen in 1987; and we all know what happened then. Additionally, "bearish sentiment" recently reached its lowest level since 1987. So while we bask in the past year's market performance, uncertainty looms on the horizon. For our clients, it is an easy decision: maintain a cautious outlook by stressing conservative portfolio strategies.

The market is oscillating between greed and fear. So far greed has won this round, but predictably fear (i.e. market sell-off) should follow. Earnings expectations have been quite high, so any disappointment can quickly trigger a market sell-off. By no means are we forecasting a doomsday scenario, rather we are just suggesting that caution, prudent investing and risk management are worthy approaches at this juncture. We always attempt to be proactive in our portfolio management, not reactive, and that's especially important now.



The economic recovery is challenged by the political environment in Washington. If we could somehow channel the resources of both parties to enhance economic growth, we might witness the type of recovery we sorely need. The result could be low unemployment, low taxes, reduced government spending and debt, and business incentives, all supporting lasting economic prosperity. Something to think about!

Please call should you have any questions or concerns, or would like to discuss any aspect of your financial picture.

Warmest regards,

Scott B. Shubert

***Post Script:** As we went to publication on the afternoon of May 6th, the equity markets experienced a severe sell-off, falling 300 points, only to further drop another 700 points in just 5 minutes, creating chaos, confusion and panic. The market recovered to close down 347 points but awakened the fear and anxiety that we felt during the financial crisis. This market event only confirms our suspicions about market volatility and illustrates the need to be cautious, prudent and realistic in our portfolio management in order to protect our clients' money.*

