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Quarterly Update

First Quarter 2010

## Dear Hawk100 Member.

Hawk100 extends to you and your family the warmest wishes for a wonderful spring...the season of new growth. Savor the sweet smell of flowers blooming and positive portfolio returns. But, do not linger on the past. Instead, cultivate your garden to prepare for rainy days ahead. Though we cannot exactly predict the future, we can improve the outcome by being ready when any storms come.

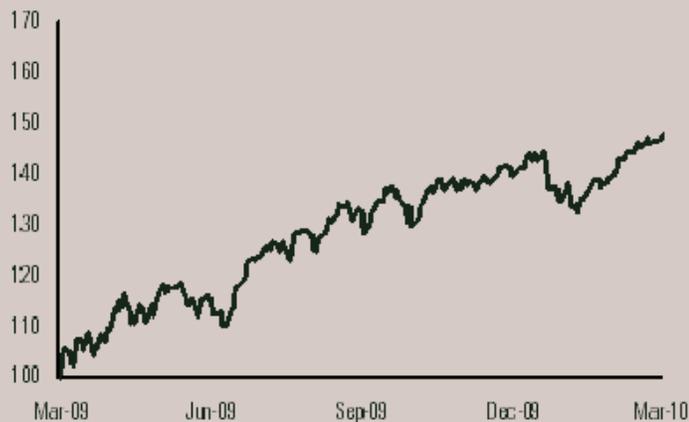
I would be delighted to help you cultivate your portfolio with a personal exploration of your Wealth Alignment Report and Wealth Alignment Plan<sup>SM</sup>. Please contact me to arrange a personal consultation. Meanwhile, this should add color to the story of your Wealth Alignment Report for the first quarter.

Clearly, you see that stocks have enjoyed an upward tear during the year. The ascent from the depths of March 2009 received only intermittent interference primarily from Washington political games (to reform healthcare, the environment, and financial markets), but we'll reserve such opinions for now.

Why aren't we happy investors riding the crest of this bull market? Simply, global financial markets are increasingly signaling that this bull market may soon lose its horns. Let's explore this.

According to the consensus view, the US has fully recovered from the storms of financial crisis and there is little to worry about today. Indeed, most US economic data has lately matched the stock market

S&P 500 (Large US) Index



S&P 600 (Small US) Index



March 31, 2009 = 100. Based on data provided from Comstock, Inc.

The US stock market bulls celebrated their one-year anniversary in March. Large US stocks climbed another 5.4% this quarter. The S&P 500 has returned 49.8% since March 31, 2009 and more than 68% from the closing low on March 9, 2009. Although those gains impress, small stocks have risen even more robustly—up 8.6% for the quarter and 64.0% from March 31, 2009. The above charts present price changes for large and small stocks in the US during the preceding 12 months.

bullishness. GDP rose at a seasonally adjusted annual rate of 5.6% at last report, Q4 of 2009. The Federal Reserve Board maintained a doveish position by holding interest rate targets near zero, holding more than \$1 trillion in free reserves, and bloating its balance sheet with treasuries.

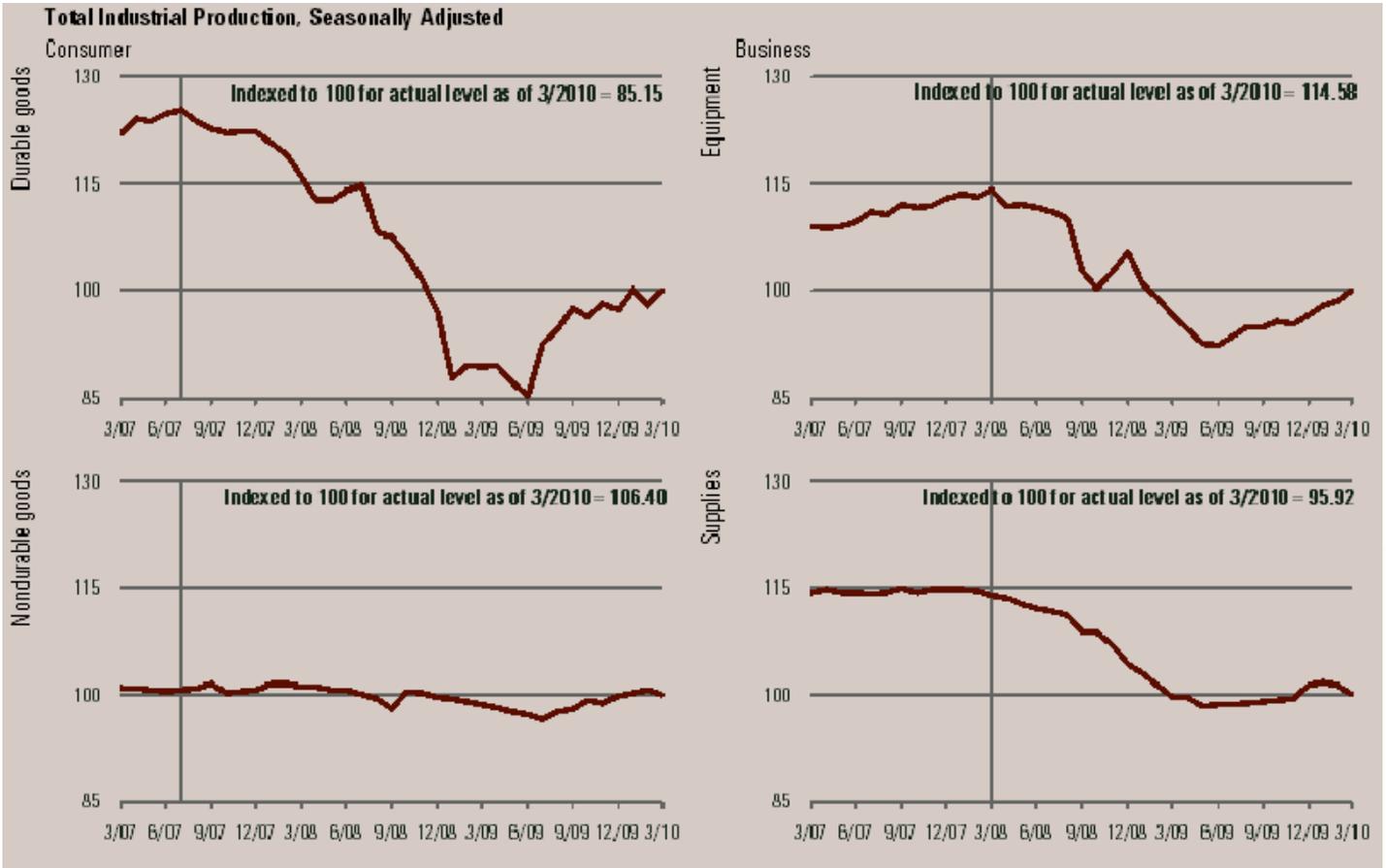
Why is Hawk100 hawkish during this blithe spring? Bluntly, we spell Winter with a capital "W" and that cold season will someday come.

Look at US industrial production as reported by the Federal Reserve Board. This statistic describes aggregate domestic production levels

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Your wealth.  
Your life.  
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Based on data from the US Federal Reserve Board.

and coincides with economic cycles. In all, Hawk100 tracks more than 300 series of industrial production to examine different economic sectors, segments and industries. The above charts bifurcate industrial production on two lines: consumer – business and durable/ equipment – nondurable/supplies.

Industrial production is a key to the consensus opinion that we are recovering from a "V" recession. Particularly durables and equipment seem to show happy days ahead. Those segments are intuitively leading indicators because consumers and businesses increase such expenditures supposedly only when they hold a positive outlook and

are comfortable making these larger investments.

Contrary to that intuition, in each recession since industrial production data was first published in the mid-1980s, nondurable staples and business supplies actually topped before the corresponding peak in durables and equipment. This is shown in 2007 for durables and 2008 for equipment. Though three recessions makes a statistically small sample, nonetheless, it raises doubts about the intuitive approach. Raising concerns and doubts further, nondurables and supplies appeared to top recently.

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Meanwhile, domestic bond markets started to signal caution. The shape and slope of yield curves provided insight that bond investors forecast difficult economic conditions. Typically, a steeper yield curve foretells improving economic conditions and a flat or inverted curve is consistent with weakening conditions. Term structure yield spreads measure the difference between market yields for longer term bonds versus shorter term notes and bills. Those spreads appeared to top during the quarter.

Recent Fed and Treasury comments have derided bond vigilantes who embolden deficit hawks and drive interest rates higher when their inflation expectations rise. The vigilantes share our concern that easy monetary supply has concealed rather than repaired the underlying economic troubles that brought on the financial crisis. We might even suggest that risks have compounded on the Fed's balance sheet.

International markets encountered ever more challenging obstacles. Overseas stocks rose just 0.9% and foreign bonds were flat. The fiscal crisis in Greece spread across Europe as Spain, Portugal, Ireland, Britain, France, and perhaps others struggle to maintain fiscal balance. The Economist showed that each of these countries reported budget deficits in excess of 8.5% of GDP. The Maastricht agreement that formed the EU required member nations to keep deficits within 3% of GDP. We are watching Europe like a hawk and have travel scheduled for Spain this summer to learn more.

If you have not yet done so, please visit [Hawk100.com](http://Hawk100.com) to explore the services and content that we offer Hawk100 members. We welcome your feedback to continue improving and refining the site to align with your interests. We intend to offer you personalized web content, reserved for Hawk100 members, that enhances our wealth advisory services for you. Again, we welcome your suggestions.

On June 19, Hawk100 will sponsor Clemens Cycle for Cancer to support research and education that advances treatment options for cancer patients and their families. Hawk100 will credit future wealth adviser fees by the cost of event registration for Members who join us in Centerville, Ohio. To contribute or register for the event, please visit [www.mvhfoundation.org/node/24](http://www.mvhfoundation.org/node/24).

Thank you for entrusting your Wealth Alignment Plan with Hawk100.

Hawk100  
Richard Clemens, CFA  
President



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