# MARKET LETTER

May, 2010

COE CAPITAL MANAGEMENT

Dear Friends,

**Market Update**

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The stock market fell sharply today, as the S&P 500 was down nearly 4% to close at 1071, bringing the index to its lowest level in three months. The S&P 500 is now down approximately 12% from its April 23rd high of 1217. Many key support levels have now been broken on a wide range of asset classes, and further declines are certainly possible. Whereas the sharp decline two weeks ago was probably the result of an error; this was not – there are a number of fundamental problems emerging.

The European debt problem continues to hang over the market, and some economists fear that it could derail the US and global economic recoveries. Given how fragile the recovery seems to be in a number of key economies, including the United States, there are real concerns that the global economy could slide back into a recession. Today's news didn't help: the Labor Department reported an unexpected rise in unemployment benefits after four consecutive weekly declines, and The Conference Board said its index of U.S. leading economic indicators slipped 0.1% in April, the first decrease since March 2009. Both reports suggest the possibility of an economic slowdown, though two data points in one month certainly do not make a trend – more data is needed. In the meantime, the stock market is not waiting for more data; the selling has been strong.

Fortunately, as we have reported in recent letters, we have exercised discipline with our equity holdings, trimming or selling numerous positions and investing in selective new opportunities. While we continue to hold some modest positions in international equities, our portfolios entered this downturn in a relatively underweighted stance in this asset class. Also on a positive note, our positions in bonds have increased in value for the most part, and our positions in diversified securities have held up relatively well. Since we have been fairly active in moving to the defensive side in the past several months, including some recent changes, our portfolios are the most defensive in quite some time. As such, we are reasonably positioned for this environment, and clients should expect us to continue our judicious and deliberate approach.

Warm regards, Larry Stein

## Disclaimers and Notices

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**The S&P 500 Index** is a leading indicator of the U.S. equities market, reflecting the risk and return characteristics of the broad large cap universe. It covers 80% of the U.S. equities market and encompasses more than 100 different industry groups with just 500 stocks. Companies included in the index are domestic (based on operations locations, corporate structure, accounting standards and exchange listings), have market caps in excess of $3 billion, and have a public float of at least 50%.

**The Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

**The MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

**The Barclays Capital U.S. Aggregate Index** covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors. U.S. Agency Hybrid Adjustable Rate Mortgage (ARM) securities were added to the U.S. Aggregate Index on April 1, 2007, but are not eligible for the Global Aggregate Index. The U.S. Aggregate Index is a component of the U.S. Universal Index in its entirety. The index was created in 1986, with index history backfilled to January 1, 1976.

The investment returns for the above indices are shown for comparative purposes. When comparing the investment returns of accounts to those of an index, you should take into account that the applicable accounts do not necessarily hold the same securities or have the same overall characteristics as the index. In addition, the index is not available for direct investment; therefore its performance does not reflect the expenses associated with the management of an actual portfolio. Neither the information nor any opinion expressed constitutes a solicitation by Coe Capital Management, LLC, to purchase or sell any securities or commodities. Since no one investment program is suitable for all types of investors, this information is provided for informational purposes only. You should review your investment objectives, risk tolerance and liquidity needs before selecting a suitable investment program.

**Past performance is no guarantee of future results. You cannot invest directly in an index.**