BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

Volume 13, Issue 1 April 2010

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FINANCIAL MARKET OVERVIEW

The first quarter of 2010 ended quite well compared to all the possible outcomes given such challenging economic and political times. Nearly all asset classes, except for gold and natural resources, posted modest to above-average gains during the first quarter. Generally, the financial markets perform quite well during the first several quarters following a dramatic decline – especially in the absence of any new bad news. Old bad news is forgotten.

The overall U.S. stock market was up a solid 5% to 6% during the first quarter. Large-company stocks performed a few percentage points lower than the overall average and small to mid-size companies advanced a few percentage points higher than the averages. Surprisingly, international stocks and emerging markets only posted small percentage gains.

As expected, interest rates began to climb causing bond funds to post flat to small gains in total return. Although interest income begins to rise, bond prices fall as interest rates increase and therefore the combined return considering both rising interest income and declining bond prices results in flat to slightly positive overall performance.

In general, value stocks outperformed growth stocks and small to mid-size stocks outperformed large-company stocks. A noticeable change was the lower performance of international and emerging markets stocks compared to the overall U.S. stock market. Lastly, the broadest measure of U.S. stock prices, the U.S. Total Market Index, was up 6.2% (including dividends) during the first quarter of 2010.

Although the financial markets recorded a solid or normal range of performance during the first quarter, the stock market rebound which began one year ago has not fully compensated for losses incurred during 2008. The following chart displays sample returns of various asset categories during calendar years 2009 and the first quarter of 2010:

Year 2009	**1st Qtr. 2010**	**Index Return *(includes dividends reinvested)***
+ 22.7%	**+ 4.8%**	**Dow Jones Industrial Average**
+ 27.2%	**+ 5.4%**	**Standard & Poor's 500 Index**
+ 28.7%	**+ 6.2%**	**DJ U.S. Total Stock Market (Broad Market)**
+ 35.1%	**+ 4.2%**	**Large-company stock-Growth**
+ 23.1%	**+ 5.8%**	**Large-company stock-Value**
+ 40.4%	**+ 7.1%**	**Mid-Size Stocks – Growth**
+ 37.3%	**+ 8.3%**	**Mid-Size Stocks – Value**
+ 36.2%	**+ 7.3%**	**Small-company stock- Growth**
+ 32.6%	**+ 9.5%**	**Small-company stock- Value**
+ 33.3%	**+ 1.6%**	**International (excludes U.S.)**
+ 75.6%	**+ 3.3%**	**Emerging Markets**
+ 30.3%	**+ 9.6%**	**Real Estate Investment Trusts**
		Fixed Income
+ 0.7%	**+ 0.9%**	**Short-term U.S. Treasury *(includes appreciation)***
+ 2.6%	**+ 0.9%**	**Intermediate U.S. Treasury *(includes appreciation)***
		Alternative Investment Category
+ 23.0%	**- 0.9%**	**Gold**
+ 40.5%	**+ 1.3**	**Natural Resources**
- 4.5%	**- 4.6**	**Managed Futures**
- 5.1%	**+ 3.8%**	**U.S. Dollar**

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WHEN TAXPAYERS BEGIN PAYING FOR HEALTH CARE REFORM

No major tax increases will begin before 2013 and coincidently, the new health exchanges that uninsured individuals will use to purchase health insurance coverage won't be available until 2014.

The first significant increase in taxes begins in 2013 with *two new Medicare taxes*. The first tax pertains to wages. A new 0.9% surtax will be applied on wages in excess of $200,000 for single taxpayers or $250,000 for couples filing a joint return. *The employee pays the entire surtax amount.* This surtax applies to all wages whether hourly, salaried or self-employed.

The second Medicare tax is particularly irritating. Beginning in 2013, ***unearned*** income (defined as interest, dividends, capital gains, annuity income, royalties or passive rental income) will be subject to a **3.8%** Medicare tax for single taxpayers with incomes over $200,000 and married taxpayers (joint return) with over $250,000 of income. This tax applies to ALL taxpayers regardless of age. Only two basic categories of income are exempt: tax-exempt (municipal bond) income and retirement plan payouts (pension, IRA, 401(k) etc.)

A few penalty taxes are effective in 2014. If anyone does not have or did not purchase a health insurance policy by 2014, then he/she must pay a penalty tax up to a maximum of $285 for a single taxpayer and for a family the penalty is $95 per adult plus $47.50 for every person under the age of 18.

TAXPAYERS CAN EXPECT HIGHER INCOME TAXES

Upper income taxpayers will eventually pay more income taxes in addition to the two new Medicare taxes described above. The most likely change will be an increase in the maximum federal tax bracket from 35% to 39.5%. In addition, expect the long-term capital gains tax rate (tax rate assessed on assets sold at a profit) to increase from 15% to 20%. Other tax increases have been discussed, such as raising the payroll tax again, creating a surtax on all income, higher self-employment tax and even a consumption tax. The actual outcome and the extent of changes is unknown at this time, however, higher income and capital gains taxes appear to be a certainty.

CURRENT AND FUTURE ECONOMIC OUTLOOK

The first quarter ended on a positive note with several hopeful indicators appearing to be headed in the right direction. Although the national unemployment rate remains unchanged at 9.7%, the Bureau of Labor Statistics announced the creation of 162,000 new jobs during the month of March. Job increases of any magnitude are good news despite the fact that 48,000 of the new jobs were temporary census workers and 81,000 of the new jobs came from the Bureau's statistical changes to the birth/death variable included in the computation. Therefore, the net new permanent jobs created during March were actually 33,000. Perspective is necessary before assuming significant improvement. Job losses began 28 months ago and since that starting point, our country has lost 8.4 million jobs. In addition, the average hourly pay declined 0.1% in March - the first decline in seven years. In summary, the March job creation figure is positive in the sense

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that the results point toward improvement and at least we aren't adding to the 8.4 million total jobs already lost.

Pending sales of previously occupied homes rose 8% during the month of February. Historically sales do pick up after the holiday season and the rush to cash in on the soon-to-expire tax credits for first-time homebuyers and move-up purchasers helped provide a boost, but an increase for any reason is a positive sign.

The final outcome of the Health Care Reform Bill has finally transitioned from an unknown concept to a completed deal. We now have health care reform and thankfully, the enormous collection cost of this new program via new taxes will not become a burden until 2013. Just transitioning from an unknown outcome and battle to a completed deal is a favorable event for the financial markets. Hopefully, the economy will strengthen and the financial markets will stabilize before the cost becomes a drag on consumers and businesses.

Finally, the consensus outlook of analysts calls for a 27% increase in corporate earnings growth in 2010 compared to 2009. The recent stock market rally could have staying power as long as analysts continue to raise their outlook for corporate earnings and investors become more confident that the analysts might be right. What we should be watching for is rising expectations. First quarter results for corporate earnings begin in mid-April. If the results are in line with analysts' expectations, the recent rally in stock prices will hold. If not, expect more of the same "two steps forward and one step backward" movement in stock prices.

Over the short-term, we expect both the stock and bond markets to advance in reaction to what appears to be favorable news and we expect sudden reversals based upon new information that falls short of prior expectations. Over the short-term, the financial markets have always moved in reaction to new data that may or may not conform to expectations. What we are seeing today is a migration away from cautious hope of an economic recovery toward rising expectations that the recovery is underway.

Our short-term outlook is the same as our explanation provided in our previous two newsletters. The recent significant advance in stock prices (over 75% since March 2009) is more than adequate or justifiable given the uncertain economic environment, political turmoil, subdued business activity, (un)employment, housing prices, etc. The risk of disappointment is still very high. Our client portfolios are solidly invested in the "middle of the road" with more conservative/cautious holdings such as water, energy, gold, foreign government bonds, and high dividend-paying stocks compared to our normal allocation to stocks with higher weightings in growth and international stocks.

Beyond this calendar year and perhaps beginning as early as 2011 or 2012, the economy should be stronger than it is today. The biggest unknown is whether the recovery or improved economic health will be sufficiently strong enough to counter-balance higher income taxes, two new Medicare taxes discussed earlier and higher interest rates. Since our country has had a perfect track record of finding its way to recoveries and the American people will vote their approval/displeasure rather quickly, we are confident about the economy and future stock prices. We simply believe caution and disciplined buyside criterion is more important today than ever before.

ANNOUNCEMENTS

Pam Priest (receptionist) will become a grandmother in September 2010. Her daughter Annie and husband Randy are expecting their first baby (boy).

Please send paper or computer file copies of your 2009 income tax returns to our office upon completion. Our investment decisions and income tax management strategies are greatly improved when we have copies of your income tax returns.

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Lastly, the estate tax laws will change this year, income tax rates will definitely be higher for some taxpayers and the recent turmoil in the financial markets may have caused permanent adjustments to our earlier retirement projections. Please consider your circumstances carefully and contact us for a meeting to re-examine or make adjustments to your retirement planning objectives. Thank you for your continued trust and confidence and we look forward to hearing from you soon.

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Best regards

Brian Lowder   Clinton Winey   Michael Kinnear   Remette Martinson   Pam Priest