

Market Index	January Change	Year to Date
Standard & Poor's 500	2.4%	2.4%
Dow Jones Industrial Average	2.7%	2.7%
Russell 2000 (small company)	-0.3%	-0.3%
MSCI EAFE (international)	2.4%	2.4%
Barclays Intermediate Gov/Credit Index	0.1%	0.1%
3-Month Treasury Bill	0.0%	0.0%

Good Start To The New Year

Last year's market rally spilled over into the New Year, and the Dow Jones Industrial Average recorded its strongest January in 14 years. The Dow touched the 12,000 level for the first time since June 2008 and finished the month with a 2.7% gain. Bonds were up 0.1% during the month as interest rates remained fairly stable.

The U.S. stock market has continued to respond favorably to the Federal Reserve's commitment to quantitative easing (e.g. Treasury bond purchases) and steady improvement in economic growth. Investor sentiment is also improving, and mutual fund flows into stocks have been rising. That is a reversal of the trend experienced in 2010, when cautious investors were reducing stock exposure and investing in bonds. Overseas, though, investors in emerging markets have been taking profits.

The MSCI Emerging Markets Index fell 2.8% in January as markets sold off in fast-growing countries like Chile, Brazil, and India. Such red-hot economic growth in these countries has elevated fears that inflation might become a problem and foreign central banks will need to adopt a tighter monetary policy (i.e. raise interest rates) to manage growth. Many commodity prices have been spiking: Brent crude oil has hit \$100 per barrel, copper has jumped to record highs, and wheat prices have more than doubled in the past year. Massive protests in Egypt calling for the resignation of Egyptian President Hosni Mubarak have also reminded investors of the geopolitical risks involved in investing internationally, where governments and laws have the potential to change without much warning.

A key underpinning to the U.S. market strength has been a sustained recovery in corporate earnings. As companies have reported 2010 earnings during January, it has become apparent that the 4th quarter of 2010 will mark the 5th consecutive quarter of year-over-year earnings growth and the 7th straight quarter of higher than forecasted earnings. Revenues have been particularly healthy compared to expectations. A major determinant in whether or not the earnings improvement can be sustained is likely companies' ability to maintain profit margins. Margins have reached new highs during this profits recovery with tight control of labor costs and rising revenues, however, higher commodity prices will increase raw material costs and pose a new challenge for companies. Recent manufacturing surveys show a steady increase in optimism, which combined with high levels of cash on corporate balance sheets, suggests that capital investment could pick up this year.

January has often served as a barometer for the entire year, and performance during this month has predicted the direction of the market for the full year in almost 3 out of 4 instances going back to 1950. The case for a positive year in the stock market is also supported by another historical pattern: the Presidential cycle. In fact, in the third year of a presidential term (of which 2011 will be), the market has been up in every one of those years since World War II (16 terms).



CINCINNATI

3777 West Fork Road Cincinnati, OH 45247 513.661.3100 800.541.0170

DAYTON

40 North Main Street Dayton, OH 45423 937.461.3790 800.851.9114

COLUMBUS

100 E. Broad Street Columbus, OH 43215 614.365.9103 866.365.4523