

Dock Street Assumptions, 2010

The Economy:

The Great Recession ended in the US in the 3rd Quarter and we expect growth in 2010 to be moderate to weak.

Asia appears to have embarked on a significant boom along with other selected emerging markets.

Europe muddles along with pockets of growth surrounded by deflationary basket cases and Japan seems set for yet another lost decade.

Deflation continues to be the immediate problem. The cure may produce inflation sometime in the future, but the primary threat investors face is a prolonged deflationary depression. The US has avoided a Depression scenario for now; however looming tax increases and talk of restrictions on trade threaten to slow future growth.

Deleveraging will be a drag on the economy for several years. Less credit will be available as banks strengthen their balance sheets, raise capital, and respond to increasing regulation.

Governments will grow at the expense of the private sector, but this trend will be less evident in Asia.

The China/USA financial alliance will continue. The ballooning Federal debt will be financed largely by Chinese savers through the purchase of our Treasury Bonds.

The US consumer will not spend freely any time soon, and the high current savings rate will persist. The job market will show signs of a slow recovery in 2010.

Markets:

Emerging markets, led by China, will remain the place where equity investors find the most opportunity.

The U.S. stock market is nearing the end of a liquidity driven rally. The bull market can continue in 2010, but only if profits lead the way.

Interest rates will remain low for the foreseeable future. The Federal Reserve will keep rates low to combat deflation and spur growth.

Investors are being forced out of cash through historically low money market rates--- essentially zero. As long as rates remain low, cash will migrate into bonds and secondarily, stocks.

The dollar will remain the preeminent currency in the world. However, all currencies will weaken when compared to hard assets.

Technology, materials, and energy will be favored sectors within the stock market.