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The Northwest Investor

Market Digest S&P500 As of May 31st, 2010

YTD	1 Mo	3 Mo	1YR	3YR	5YR	10YR	15YR	20YR	Since Inception
-1.50	-7.98	-0.89	20.99	-8.69	0.31	-0.82	6.78	7.92	10.90

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
28.60	21.10	-9.10	-11.90	-22.10	28.70	10.90	4.90	15.80	5.50	-37.00	26.5

MARKET COMMENTARY

Volatility returned with a vengeance in May, as May 6, 2010 will now be referenced in market history as "Flash Crash." In a matter of moments, the S&P 500 declined over a hundred points and then recouped 62% of its loss by the end of day. The long-awaited and anticipated correction had arrived, and with it, the return of fear.

For the month, the S&P 500 declined 7.98%, marking the worst decline since the index's 10.99% decrease in February 2009. May 2010 is also the worst May since 1962, when the index saw an 8.60% decline. On Thursday May 20th, the S&P 500 closed at its low for the day as concern over growth, currencies, and debt rattled investors. The 3.90% decline (43.46 points) to 1071.59 was the worst one-day performance since the April 20, 2009 decline of 4.28% (37.21 points to close at 832.39). From the April 23, 2010 high of 1217.28, the S&P 500 has declined 11.97%.

All ten sectors were down in May, with 464 issues declining and just 35 issues ahead. Energy took the lead, declining 11.81%, followed by Industrials (-9.83%) and Materials (-9.65%). The best performing sector was Telecommunications, which lost 3.94%. Nevertheless, Telecommunications remains the worst performing sector year-to-date (YTD) with a 10.64% loss. Only three sectors show gains YTD: Consumer Discretionary (+8.34%), Industrials (+5.55%), and Financials (+1.88%).

Sentiment has quickly round-tripped from too optimistic to too pessimistic. The DSI (Daily Sentiment Index) for the S&P 500 reached 92% bulls in late April and last week had fallen to 19% bulls. That is still higher than the 2% bulls found at the March 2009 low but well below the 33% seen at last February's low. On the fundamental side, valuations have corrected as well. At the recent peak, the 12 month forward P/E ratio stood at 14.5x. It is now 12.6x. The trailing P/E stood at 18.4x. It is now 15.7x. If the earnings track continues to come in as it has, buying stocks at 12.6 forward multiple will turn out to be a steal.

One thing that has become clear from watching the tape over the past few weeks is that the risk markets can not rally without the Euro doing better. That is the key. Euro up, stocks up, oil up, credit up.

This shows that the health of the Euro will be the key indicator to watch in the coming weeks and months for signs that the markets are getting better or worse.

"…a very rich person should leave his kids enough to do anything but not enough to do nothing." Warren Buffet

June 2010 Interest Rates:

5YR US Treasury Bonds: 2.04%

5YR AAA Municipal Bonds: 1.91%

5YR AAA Corporate Bonds: 2.53%

5YR CD Rates: 2.85%

HOW BIG?

The bailout for Greece (provided by the European Union and the IMF) is worth 110 billion Euros, equal to approximately $140 billion, or 40% of the $350 billion Greek economy. If the USA's $14.6 trillion economy received a 40% bailout, that financial rescue package would be worth $5.8 trillion. The stimulus approved by Congress in February 2009 was worth $0.8 trillion (source: BTN Research).

MORE GLOBAL SALES

The total value of goods and services exported from the USA to the rest of the world was $148 billion in March 2010, up from $123 billion in March 2009 (source: Commerce Department).

WHAT WE SAVE

The national personal savings rate in the USA was 1.7% in August 2008 (i.e., before the 2008 global financial crisis), rose to 6.2% in May 2009, but has now fallen back to 3.6% in April 2010 (source: Bureau of Economic Analysis).

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Not everyone needs life insurance

In its purest form, life insurance is merely a form of financial protection in the event of your death. You sign a contract to pay premiums to an insurance company, and in return, the company agrees to provide a specified amount of money to your beneficiaries upon your passing. This financial protection can be particularly comforting when it comes to providing:

- Protection for your family against financial hardship or to maintain their current standard of living
- Cash to pay off mortgages, taxes, or other debts so your heirs are not left with them
- Funds to pay funeral expenses
- A continuing income stream for your surviving family members
- An inheritance for your heirs
- A nest egg for future expenses, such as your children or grandchildren's education

Life insurance is most applicable when you have dependents or heirs who count on you to provide for them. On the other hand, there are plenty of situations where life insurance does not make sense, such as if you are single and don't have any dependents.

You may hear that premiums are lower if you purchase a policy when you are young, or that by purchasing a long-term policy now, you won't have to provide evidence of insurability later. While both statements are true, odds are that you'll be paying premiums needlessly if you follow this line of reasoning. If you truly don't need life insurance now, then why pay for it?

The following are circumstances in which you would most likely not need life insurance:
You are retired and have no dependents. At this time in your life, you most likely don't have large debts or dependents relying on your income. If no one who will be financially harmed when you pass away, you probably don't need life insurance. An exception to this logic may apply if you are using life insurance as an estate-planning tool for tax purposes.

You are considering a policy for a minor child. Undoubtedly the loss of a child would be terribly tragic. Financially speaking, however, you would not experience a loss of income provided by the child. Therefore, life insurance does not make sense for minor children except as insurance against the cost of funeral expenses.

At the other end of the spectrum, if you have young children, a spouse, or other family members who are relying on your contribution to the household income in order to pay the bills, then you probably do need life insurance. Whether it's to pay off your mortgage or provide your family with a specified income stream, life insurance is an important financial tool that can help you plan for the uncertainty of the future. We are available to answer any life insurance questions you may have.

"Flash Crash"

On May 6th 2010 the Dow Jones Industrial Index lost 998 points before rebounding to close the day with a 347 point loss of 3.2%. The 998 point drop is the largest one day point loss in the Dow's history with most of the loss occurred during a 15 minute period around 11:30 AM Pacific time when the Dow plunged almost 700 points.

So what happened? Basically, a large amount of sell orders hit the NYSE in a few major stocks like P&G. The NYSE is the only exchange that still has a person (the specialist) who regulates trading, opposed to a computer searching for the best price. When the sell orders hit the NYSE, the specialist in P&G went into "Slow Mode". That means trading is stopped for 90 seconds to let liquidly catch up, (let the buyers catch up to sellers). The specialist can then match up the buys and sells manually (like they did in the old days) in order to keep the market functioning properly.

The problem occurred when the computers bypassed the "Slow Mode" NYSE and sent the orders to other small exchanges in search of buyers. The other exchanges like Nasdaq, BATS and Direct Edge, have less volume than the NYSE so when the computer programs took their large sell orders to the smaller exchanges the prices were driven down even lower.

The solution is to have the exchanges communicate better with each other, have consistent trading rules across the exchanges and have circuit breakers that halt trading in individual stocks automatically when they fall by certain amounts; all of these solutions are currently being implemented by the SEC. The "Flash Crash" had little or no effect on disciplined long term investors who don't worry about day to day fluctuations in markets or stock prices.