

Boenning Morning Comment

This report is prepared for us by Tower Bridge Advisors

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Stocks finished mixed in a muted session on Friday as traders were more anxious about the snowstorm than they were about the market.

February saw the stock market recover a good part of January's losses. Indeed stocks have been largely in a sideways pattern since last fall sometimes rising on improving economic data and sometimes falling either when a particular economic number raises some jitters or traders get frustrated with all the infighting and inaction in Washington. February is a notoriously slow month. For one, it is the shortest month of the year and, this year in particular, it has been unusually harsh weatherwise especially compared to recent years. This week we will begin to see some economic data for February and it is likely to be mixed. We got a few hints over the past two weeks that raise some caution. Consumer confidence seems to be ebbing a bit. Housing is a mess. Toyota's problems didn't do any good for the auto industry overall. And, of course, the persistent bad weather on both coasts has to have some effect on retail sales. But business investment seems to be holding up rather well and certain economies around the world are doing fine and growing. The bottom line is that we aren't likely to learn a lot from the February data from a long term point of view. In other words, February numbers are likely to be a bit dull or maybe worse but we will only be able to conjecture whether the weakness is the start of another economic leg down or whether it is more a confluence of bad weather and a normal post-Christmas pause in spending. Bears will read it one way; bulls will tend to slough it off.

Looking forward, clearly the two keys to watch remain housing and employment. Housing is not likely to get better any time soon. There is plenty of inventory and financing remains an issue for many. Tax incentives continue to distort the numbers. There is a surge in buying before credits end and a pause thereafter. It is hard to get a real fix on underlying demand. Prices appear to be stabilizing, even rising a bit in some markets. But the real worry is that foreclosures remain high and may rise further in 2010 as option ARMs trigger more problems. If the market cannot absorb the added inventory, prices could fall again. That would set in motion many of the same events that led to the crisis of 2008 although not to the same magnitude. At the moment, this is only a yellow flag. There are few signs today that prices are reversing course and heading lower. But one has to watch closely.

The second issue is jobs. Weekly jobless claims data, the best concurrent numerical indicator for employment, have started to rise once again. A lot of this is weather related. Not only is consumer spending obviously impacted by bad weather but heavy snows and frozen ground have brought most construction activity in the Northeast quarter of the nation to a halt. With GDP rising now for three consecutive quarters it would seem logical that companies would begin hiring once again. The average work week is increasing as is demand for temporary employment, both precursors to an improvement in the jobs picture. But the turn hasn't occurred yet and economists will remain nervous until it does.

Washington offers little help, at least on the fiscal side. The Fed's decision to raise the discount rate to 75 basis points is actually a sign of optimism. That's good news. But the renewed push to pass a health care bill is once again putting everything else on hold. The odds of passage remain less than 50:50. Opposition is fierce, well supported financially, and the American public is generally opposed to a \$1+ trillion bill that, at its root, is essentially a big

expansion of Medicaid. Meanwhile little else is getting done and business leaders still don't know the rules of the game for 2010 and beyond. Said simply, no one knows what is going to pass and how what passes is going to get paid for. Until the rule book is written, businesses will continue to defer some portion of new investments and new hiring. Right now, it doesn't look like a lot will get done but things can change very quickly in Washington. For many business leaders, it seems prudent to wait just a while longer not only for Washington to sort things out, but to insure that the economy doesn't role over and stagnate.

March is traditionally the biggest month of the first quarter. Hopefully, most of the snow and West Coast rain is coming to an end (I wish I could use the past tense with some degree of certainty!). Americans continue to react very rationally paying down debt and boosting savings. If improving weather plus the addition of census workers begins to add jobs, confidence will rise and the recovery can continue. Indeed, that is the most likely outcome. Whatever Washington is going to do or not do should also be decided within the next month or two. The current effort to push the Senate health insurance reform through Congress probably will get decided within the next month or so. Republicans are clearly 100% against it. Speaker Pelosi and the White House either will find a majority of Democrats to support the bill in the House or it won't but it will not take months to find out. If they can't, they will have to choose whether to pursue a much watered down version or simply move on. I won't even hazard a guess. The process for the past year has been tortuous. If the current bill fails, it would seem very difficult to come up with anything this close to mid-term elections that a majority can agree on.

As for the stock market, there is a lot of data this week and stocks will feed off the numbers. I don't think the numbers will be very encouraging but it will probably be a mistake to be too bearish for reasons already mentioned. As we move further into March, company managements will begin to offer body language on the first quarter and that will be the big driver for stocks during the month. Note that the last months of recent quarters have been very good as expectations rose. I think expectations are higher this time around so I don't expect a big pop in the market, but a move back to early January highs is possible if better weather brings better spirits.

Futures point to a modestly higher opening today.

Today Ron Howard is 56. Harry Belafonte is 83.

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