



COVENANT TRUST COMPANY INVESTMENT PERSPECTIVE 2 [April 2009]

The first quarter of 2009 was marked by continued volatility in the equity markets. Year-to-date, U.S. stocks are down 13 percent [as of this writing.] Bond market performance for the quarter was mixed and showed signs of a long-awaited shift in relative performance away from U.S. Treasuries toward investment-grade corporate and municipal bonds. The past several months have been a period of stress on several fronts; and it seems from our present vantage point, that the U.S. will likely see recessionary conditions for much of 2009. Policy makers continue their efforts to alleviate the difficulties in the financial system. We remain optimistic that these problems will be resolved, paving the way not only for economic recovery but for a stronger financial system going forward.

The economic and market conditions of recent months have clearly been challenging for investors. Nearly all asset classes have been negatively affected by the fallout from the credit crisis which began to unfold in mid-2007. We at Covenant Trust Company are acutely aware of your concerns regarding the present market environment, and offer a few of our insights and observations:

First and foremost, we believe that **investor discipline** is essential in all market conditions, but particularly during times of high volatility and uncertainty. There is a strong temptation among some investors to liquidate assets and move out of the markets during such periods. We believe that allowing fear to guide one's investment strategy in this way is a serious mistake.

In May 1932, shortly after stocks had shed 85% of their 1929 highs, stockbroker Dean Witter wrote in a note to his clients: "There are only two premises which are tenable as to the future. Either we are going to have chaos or else recovery. The former theory is foolish." He was right both then and now—there are two possibilities: the world is ending and markets are heading to zero, or eventually markets will recover.

In conversations with clients during this period we have been asked how we are reacting to the present market. We explain that "reacting" in the sense of changing strategies is exactly what we do not want to do. We are not tactical investors seeking short-term trading opportunities or defensive positions. Rather, we maintain proper balance and risk levels in our portfolios through all market conditions, by way of our strategic asset allocation and rebalancing process.

Clients sometimes ask if they should move to a more defensive position until the markets stabilize. We strongly advise against such moves, and we remind clients that by moving out of the markets temporarily they are accepting substantial market timing risk. **Stock market advances often occur unexpectedly and over short periods of time: A stock market timer who missed the ten best months over the past 20 years would have earned a return less than that of Treasury bills.**

Where are we headed from here? We at Covenant Trust have never been in the business of market forecasting - especially short-term forecasting. However, we will make the prudent assumption that market volatility and uncertainty will likely persist for some time before the inevitable recovery begins. That said, we are confident that the problems in the financial system, which have affected the general economy, will be resolved in due course; and that patient, disciplined investors will be amply rewarded.