DELTA
FINANCIAL ADVISORS
Investment Counsel

April 2011

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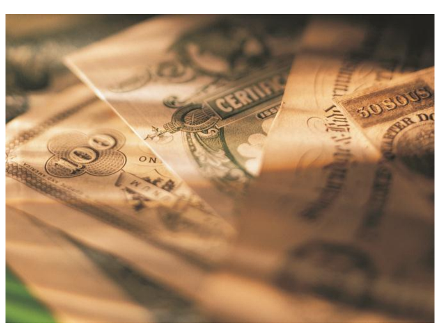
Economic Comments

An epic earthquake strikes Japan, and the collapse of the European Union currency drags on. A massive Pacific tsunami kills thousands, multiple Japanese nuclear plants are damaged and leak large amounts of radiation, and finally there is the dominoeing cascade of Middle East and African civil unrest and civil war to consider. The events of the yearôs first quarter certainly make horrific headline news. Surprisingly, the worldôs economies and financial markets have largely shrugged off this multitude of events. In fact, growth estimates for the major industrialized countries, excluding Japan, were meaningfully raised in early April subsequent to these happenings.

Domestically, the U.S.ôs central bank remained placid in the face of the global turmoil. The Federal Reserveôs Open Market Committee (FOMC) expressed its intent to keep its foot on the monetary accelerator by continuing with its second effort of monetary easing, the so-called QE2. In February, the Federal Reserve re-emphasized its objective of the QE2 by completing its previously announced $600 billion Treasury bond purchase program by its scheduled June conclusion.

So far, the FOMC remains complacent about incipient inflation. Members re-affirmed the continuation of the current ultra low interest rate policy at the March meeting. The sole nod to inflationary concerns was a recent statement indicating an awareness of the sharp rise in energy and commodity prices.

From our perspective, the question remains: how and when will the Fed wean the U.S. from its current addiction to ultra low cost money? When the economy was in critical shape 24+ months ago, this emergency remedy position was reasonable. Today, with a tepid recovery in place, the extreme measures of the last several years are no longer warranted. By sticking with the easy monetary policy for too long, the Fed will allow for the flight of a renewed inflationary phoenix.



Despite prior concerns of a possible double dip recession, the economy has shown continued strength with the 4th quarter GDP reading being raised to 3.1% and private job creation accelerating in recent months. With the last two months having seen more than 200,000 positions per month being created, the labor market is finally showing some signs of recovery. This respectable payroll growth helped push the March unemployment reading down to 8.8% for a 10% drop over the last four months.

Yet, all is not rosy in the labor market as the participation rate

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remains at 25-year lows and the number of long-term unemployed remains at record levels. At the moment, the single biggest impediment to jobs growth has been the sharp decline in local and state government employment. While the reduction in governmental dead weight will serve the country well in the long-term, the near-term effects are creating an additional economic headwind.

Our national legislators continue to give slight concern to the countryĝs budgetary woes with Congress taking a week long vacation in late March rather than spending their time focused on approving, 6 months late, a Federal budget for 2011. As we go to press, a government shutdown was narrowly avoided.

Other economic signs remain mixed as the Index of Leading Economic Indicators has now posted eight consecutive monthly gains. Despite this positive outlook, consumer sentiment turned down sharply last month to the continued rise in food prices and the sharp increase in gas costs. With commodities, and especially petroleum, having moved up sharply in recent months, this pessimism has a credible basis.

While many agricultural commodities had been surging for the last 12 months, ñblack goldò only really joined in the current upsurge after the new year with its price rising by almost 17% during the first quarter. Driving the sharp increase, now north of the critical $100/barrel threshold, has been the increasing political turmoil in Africa and the Middle East, culminating with the current civil war in Libya.

Looking longer-term, we believe that a resolution to the federal governmentĝs spending is imperative to maintain the U.S.ĝs competitive position. In the near-term, we believe that the economy is now on more firm footing and should be looking ahead to potential inflationary pitfalls. The one thing that we are absolutely certain of, following the events of the last several months, is there will continue to be unexpected surprises.

Analyst Corner

With the healthcare sector largely being shunned by investors since the approval of Obamacare, a number of interesting investing opportunities have arisen. One company that we find particularly appealing is Celgene Corporation (NDQ: CELG). The pharmaceutical company focuses on medications for cancer and inflammatory diseases. Celgeneĝs 3 primary products have attractive growth prospects while its future product line looks robust. Like many drug companyĝs, it has a very strong balance sheet with substantial cash reserves and no debt. Management has made prudent acquisitions in recent years and has continued to invest heavily in new products. Although no investment is risk free, we certainly like the prospects for this specialized company. For the right investor, Celgene could be an attractive portfolio addition!

Market Comments

The financial markets basically shrugged off the myriad international issues of the quarter. After briefly surging by almost 60% in the days immediately following Japanôs tsunami/ earthquake/nuclear disaster, the marketôs fear indicator quickly returned to its recent low levels.

For the quarter, the broader market was up by almost 6% - with only a short lived market correction, immediately following the Japanese tsunami, to punctuate the yearôs tumultuous start. Despite the civil unrest, surging energy prices, and many woes in Japan, the markets merely yawned. Given the sharp rise in energy prices, it should come as no surprise that the energy sector led the market with a 17% gain. All other market sectors advanced modestly with gains in the low to mid single digits rise. Excluding a brief surge in Treasury prices following the Japanese Tsunami, bond yields drifted up over the quarter as investors started to shift some attention towards potential future inflation concerns.

Corporate America is finally starting to feel more financially secure as S&P 500 companies have now started to dig into their pocketbooks to pay investors. Underscoring this point were the dividends announced by these companies in the first quarterð they were increased by a record amount during the period. Similarly, market pundits have grown increasingly bullish since the start of the year. Expectations for the yearôs profits having been ratcheted up to a record $98/share - or an expected 15% increase over 2010.

We believe that in the face of the sharp advance in oil prices, now north of $105/barrel, and the severe economic and environmental turmoil in Japan, expectations will likely be moderated somewhat within the next several months. Nonetheless, meaningful profit growth for 2011 appears likely.

In looking at the areas of concern, our biggest issue remains the marketôs current complacency. Amidst the extraordinary events of the last 3 months, the markets basically shrugged and said ñI donôt care.ò Another way of describing this behavior is that investors have become more risk seeking - obviously something of which to be wary.

We believe that while the overall global economy continues to slowly, slowly recover from the party of the mid 2000s, risks remain abundant. This concern is further underscored by the Portuguese governmentôs request in recent days for a financial bail-out from the other European countries.

Given the marketôs current complacency, as measured by the low expectations for future volatility, we believe that now more than ever it is important to be prudent in assuming risk. One of our key investing tenets is, and will remain, managing risk. In times where investors grow content, you should become more wary. While we believe the markets still have an upward bias, the ride will likely be bumpy for the foreseeable future.

Performance as of 3/31/11

	Close	Month	YTD	1 Year
DJIA	12,319.73	0.91%	7.07%	16.51%
S & P 500	1325.83	0.04%	5.92%	15.65%
NASDAQ Comp.	2,781.07	-0.04%	4.83%	15.98%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	3.45%	3.31%	3.83%

Planning Thoughts

Given the high likelihood of income tax rates being raised, many people are now struggling to identify tax-sheltered investment opportunities. One of the best vehicles in existence for tax exempt investments is the Health Savings Account (HSA). This account is available to individuals covered by specific high-deductible health insurance policies. Participants and/or their employers can make tax deductible contributions to an HSA account controlled by the individual. The account's growth is untaxed, similar to an IRA, and HSA withdrawals are tax free, similar to a Roth IRA, so long as the funds are spent on qualified medical costs.

Surprisingly, 37% of individuals eligible to open and fund an HSA do not do so. The really attractive aspect of an HSA is if the account owner can avoid making withdrawals on the account but rather pays his medical costs with other taxable funds. In effect, this can be a means for a high income individual to create their own Roth IRA!   With a maximum possible contribution of $6,150 in 2011 per family, these funds can add up over time.

If you are interested in finding out more about this interesting investment vehicle, please give us a call so that we can discuss the possible merits relative to your own circumstances.

Enclosed in this quarter's mailing is our firm's revised ADV Part II. New SEC regulations have required the re-writing of this form in "Plain English." If you have any questions about this form, please do not hesitate to call us.

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