DELTA
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Economic Comments

Despite the U.S. economy finishing 2011 on a relatively strong note, the Federal Reserve remains very concerned about the strength of the economic recovery. At the Fed's March meeting, particular concerns were raised over increasing commodity prices and the continued housing crisis. Adding further anxiety is the potential downside risk to the economic situation if the global financial crisis re-ignites.

Moreover, these fears were expressed after the Fed had already announced in January its intention to hold short-term interest rates near zero through the end of 2014, 18 months longer than previously stated. For the first time ever, detailed predictions of expected U.S. growth over the next 2 years were provided by the Federal Reserve. While these estimates added color to the central bank's cautionary growth estimates, the goal was to convince investors that interest rates will remain extremely low for an extended period of time. Through this messaging, Chairman Bernanke is aiming to encourage economic growth.

Probably the biggest uncertainty on the economic front comes from Europe. While the situation has temporarily stabilized with the successful re-vamping of a major portion of Greece's national debt in March, a difficult series of continued maneuvers are going to need to be successfully accomplished, if a greater calamity is to be avoided. In the near-term, draconian fiscal policies have somewhat stabilized the continent.

Longer term though, some type of economic stimulus is likely going to be required for these economies to out-grow their current debts. Exponentially complicating the situation are the 27 governments of the EU, various multi-lateral institutions and financial entities and their multitude of politicians and administrators — almost all of whom have strong, and divergent, views of what needs to be accomplished.

Despite analysts' heightening concerns, rising oil prices have not stalled the current economic recovery—at least not yet. Fickle consumer sentiment is yet to be impacted by this hot button issue. One survey of consumer sentiment showed a negligible decline from year end which is when oil prices began their most recent rise. However, a sudden surge in pump prices beyond 2008's levels could create a consumer backlash with negative economic consequences.

A continued concern to investors remains the U.S. central bank's ability to smoothly unwind its recent easy money policies. The challenges of which were highlighted in 1994, and following the 1991 recession, when 10-year bond yields

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rapidly spiked upwards by more than 2 percentage points. Even if the Fed handles its interest rate increase smoothly, the critical related concern is how the economy will respond to rising interest rates given its extreme reliance on historically low rates in recent years. The multi-trillion dollar question is whether this transition to more normalized rates will be a smooth or a rocky ride for the markets and the U.S. economy.

Looking at recent key economic data, March payrolls rose far less than expected with only 120,000 jobs added during the month — sharply beneath expectations and the lowest level of increase in more than 5 months. In a mixed report, U.S. unemployment moved down slightly to 8.2%, a 3-year low; however, this decline was driven by job seekers giving up their futile searches. To keep this number in context, almost 25 million Americans are not currently able to find full time jobs.

An unfortunate attribute of the current recovery is that economic growth has been tepid. The recession of the early 1980s was followed by five quarters of growth topping 7%! In comparison, weak quarterly growth since 2009 has been less than 4% with the economy in the 4th quarter of 2011 growing only 3.0% and likely 1st quarter 2012 growth of less than 2.5%. The result is that many companies are now earning record profits but with demand weak and the outlook so uncertain, they are hesitant to invest in new production or hire new employees.

Aftershocks from the financial crisis have left banks more reluctant to lend which has made it hard for companies, especially startups, to gain access to capital. Housing, which has historically lead the economy out of recession, remains in a deep nationwide depression compounding the problem. Another contributing factor has been uncertainty about economic public policy. Businesses remain concerned about the threat of new regulation, likely higher taxes and the fear of continued political gridlock. We can only hope that our nation's politicians recognize these various threats and finally act to address them appropriately.

Analyst Corner

With all of the ills of modern society, we have identified a possible investment cure with Teva Pharmaceuticals (*NASDAQ - TEVA*). Based in Israel, the company is both the world's largest manufacturer of generic drugs as well as a growing manufacturer of brand name pharmaceuticals. Over the last several quarters, Teva has struggled as there have been few large value patents expiring in the generic space while its branded segment has suffered from stronger than expected generic competition. However, we believe that these issues have now largely been put in the rear view mirror and that the firm's prospects moving forward are more attractive. Given its currently depressed valuation and improving circumstance, we anticipate that the company, and its stock, will perform well. Depending upon a client's unique situation, Teva could be the right prescription to maintain an investment portfolio in good health!

Market Comments

After the roller coast ride of 2011 that ended with the markets effectively returning to their starting point, the stock market, to paraphrase the rock singer Prince, "decided to party like it was 1999." Putting in its strongest quarterly performance in more than a decade, the market stormed upwards with an almost 13% rise.

Leading the markets upward was the financial sector with a 22% gain as investors swarmed back to the sector in a burst of enthusiasm following positive news from bank regulators' most recent bank stress tests. Last year's standout, the utility sector, showed modest losses of around 2% as investors looked for, and found, their inner risk takers elsewhere in the market. Highlighting the change in investor sentiment, the VIX (which measures anticipated market volatility) declined by 33% to its lowest level in more than a year.

The 10-year Treasury bond, considered the foundation for U.S. interest rates finished the quarter at 2.22% - up from a 70-year low of 1.67% achieved in September. Even with this rise, the bonds remain far below the 4% level where economists historically have believed rates start actively hindering investment. The recent rate rise suggests at least one of two things: 1) demand for credit is increasing and/or 2) investor concerns regarding the global economic situation are easing.

Looking to corporate earnings growth, analysts now expect the first quarter to show the slowest growth in operating earnings in almost three years, with current expectations of a very modest 0.9%. If computer company Apple's sharp profit increase were to be excluded, corporate earnings would show a decline of around 1.7%. In the near-term, firms have likely hit the limit of trimming costs or laying off employees. Also negatively impacting earnings growth has been the euro zone debt crisis, slowing economic growth in Asia and emerging markets combined with rising commodity prices.

With investors already anticipating this tepid performance, it is unlikely to singlehandedly cause a stock retreat. However, heavy attention will be focused on earnings guidance for the remainder of the year. Highlighting the eternal optimism of stock analysts, they are projecting earnings growth to re-accelerate to a scorching 15.8% by year end. To achieve these levels, operating margins would have to achieve levels higher even than those seen in the mid 2000s amidst the housing boom.

In recent months, "smart" investors have been embracing risk by aggressively buying stocks. As the global financial situation evolves, it is likely that at some stage these same "smart" investors will flee risk by dumping stocks and bidding up safe haven assets such as U.S. Treasuries and U.S. dollars.

What should an ordinary investor do in this environment? The same as always: maintain a well diversified portfolio and try not to worry about day-to-day market gyrations but rather focus on key longer term goals.

Performance as of 3/31/12

	Close	Month	YTD	1 Year
DJIA	13,212.04	2.15%	8.84%	10.17%
S & P 500	1408.47	3.29%	12.58%	8.54%
NASDAQ Comp.	3091.57	4.20%	18.67%	11.16%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	2.22%	1.80%	3.45%

Planning Thoughts

As most taxpayers are now wrapping up their federal tax returns, many turn their thoughts towards managing, and hopefully minimizing, their tax burdens for the current year. Sharply complicating this exercise is the pending expiration of the Bush era tax cuts for both income taxes, capital gain taxes and investment income.

Currently set to expire on December 31, 2012, income taxes for higher earners are set to go up incrementally while taxes on capital gains and stock dividends are set to go up sharply. To this end, those individuals who are contemplating selling highly appreciated assets within the next 12-18 months should consider taking these actions in 2012. In the same vein, higher earning households should entertain shifting earned income from 2013 into 2012, if possible. Further confusing the picture is the strong possibility that Congress will yet again punt the tax ball down the road and temporarily extend these existing cuts rather than addressing the current fiscal disaster that is federal spending and revenues.

In assessing these types of tax-related moves, the devil is clearly in the details. If you are considering any moves in this direction, make sure to talk with your tax advisor well before year end.

Partners

Gerard A. Plauché, CFA

Clifford F. Favrot, CFA CFP™

Ainsley D. Bishop

Frank A. M. Williams, Emeritus

Operations Manager

John T. Egnatchik

Office Manager

Angelle M. Verbois

Contact Us Toll Free:
1-888-522-9019

228 St. Charles Avenue, Suite 1100, New Orleans, LA 70130
504-522-9019 PHONE * 504-522-9676 FAX

www.deltafinad.com

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