DELTA

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IN THIS ISSUE

Economic Comments

Analyst Corner

Market Comments

Planning Thoughts

Economic Comments

Following an amazingly partisan and rancorous debate, the new healthcare reform bill was passed into law. While having admirable objectives, the new legislation creates sharp concerns over its longer term ramifications. Outside of healthcare, the 2,409 page law will have an effect primarily in two areas, taxes and the Federal deficit. The law will further shift tax burdens onto higher income individuals with Medicare tax rates in 2013 being increased by 0.9% with these same households seeing a 3.8% additional so-called ñMedicareò tax on investment income. We say so-called as this tax, in fact, has nothing whatsoever to do with Medicare but rather is a means of raising income to partially offset the substantial increase in Federal costs to be incurred as a result of the new law.

Despite the Congressional Budget Officeõs assurances that the new legislation will reduce Federal deficits by a cumulative $143 billion through 2019, we view these claims skeptically. The only certainty of this law is that the number of citizens being offered healthcare will sharply increase. There is little cause to believe that future healthcare expenditures will be restrained as there were no requirements in the new law stipulating reductions in either the quantity or prices of healthcare services to be consumed. As a result, we remain convinced that this new initiative will sharply expand Federal deficits, barring additional tax increases or reduction in other Federal spending. The only small positive is that the bulk of the new lawõs costs will not start being incurred for several years.

Looking at todayõs economy, continued positive data is being reported by the ISMõs manufacturing index which has now expanded for eight straight months following an eighteen month long contraction. This index reading has helped

highlight the consistent and steady growth of the manufacturing sector coming out of the recessionð unlike the continued uneven performance of the housing and jobs markets. Other good signs have recently come from the Index of Leading Economic Indicators (LEI) which is forecasting continued economic strength - having now posted its 11th straight monthly gain. However, this optimism is tempered by the LEI readings flattening out; this suggests the likelihood for more uneven economic growth as the year progresses.

In its most recent report on economic activity, the Federal Reserve upgraded its assessment on the labor markets to stabilizing. Despite this improved view, the central bank decided to keep its fed

(Continued on page 2)

fund target rate unchanged while continuing its commitment to keep rates at exceptionally low levels for an ñextended period.ò Interestingly, several Fed speakers have moderated the use of this language recently suggesting a possible evolution in this position by members of the FOMC.

So far, the Fed does not appear to be under pressure to raise interest rates with Marchôs most recent CPI readings showing effectively no inflation for the period. To further highlight the current lack of inflationary pressures, capacity utilization of American factories remains more than 10% beneath its typical utilization rates of the prior 35 years.

On the labor front, the U.S. economy added 162,000 jobs in March - the most in three years while unemployment held steady at 9.7%. Helping drive the stronger employment figures were the 48,000 census workers hired by the government. Moreover, jobs numbers for January and February were modified upwards by a total of 90,000 positions.

Another set of data that gives us comfort is the remarkably steeply shaped interest rate yield curve. With the margin for error much smaller in the fixed income market, the bond markets are often good predictors of future economic activity. Historically, this type of yield structure has been a good predictor of an early stage economic recovery.

Nonetheless, meaningful risks remain as highlighted by Greeceôs near default on its sovereign debt and the resulting shockwaves felt in global financial markets. The next year shall no doubt prove interesting, but we believe that the economy, both global and national, have the ability to sustain their current, albeit timid, recoveries.

Analyst Corner

One of the more interesting plays in the energy sector is pipeline master limited partnerships (MLPs). One of our favorite MLPs is Energy Transfer Partners, (NYSE: ETP). With a focus on domestic natural gas pipelines, we believe ETP to be well situated given the ongoing sharp expansion in natural gas supplies due to improved natural gas drilling techniques and recoveries. As the company collects a toll for each unit of gas it transports, ETP is largely insulated from swings in the underlying commodityôs costs. Having just completed a major joint venture with a competitor and with a new pipeline underway in the Northeast, we believe that the company has bright prospects. With the vast bulk of most MLPsô returns coming in the form of dividends, we anticipate ETP to continue to increase its already substantial dividends (currently yielding 7.6% per annum) over the next several years.

Market Comments

After suffering a February correction of more than 9% from its early January highs, the stock markets steadily pulled ahead for the remainder of the quarter to end March almost 5 1/2% higher than on January 1st. Leading the way with double digit gains were the financial and industrial sectors while the economically sensitive utility and telecom sectors actually clocked in modest losses. The bond markets for the year had staged a rally through late March when they suffered a strong reversal in the face of a Treasury auction that was poorly received following the passing of the new healthcare bill.

While primarily a concern for traders, we continue to keep a sharp eye on the marketõs low volatility levelsð and measured by the Volatility Index (VIX) - as we believe low expected volatility to be indicative of investor complacency. Despite these concerns on our part, the markets can continue to move higher during periods of sustained low volatility levels.

Looking toward the upcoming earnings season, analysts are almost giddy in their expectations. Firms in the S&P 500 are anticipated to report year-over-year earnings growth of more than 35% - sharply higher than the 7%-8% range historically seen - along with 10+% revenue growth. While largely a sign of the snap back from last winterõs dismal economic climate, this anticipated performance is nonetheless robust. Unfortunately, much of this near -term enthusiasm appears to be already factored into the market. Yet with low interest rates anticipated for the foreseeable future and continued forecasts of sustained economic recovery, the S&P 500 is likely inexpensively priced if strong growth continues through next year.

As for the proposed taxes to be levied on investments to partially pay for the new healthcare law, we remain cautiously optimistic that their impact on the markets will be muted. Our belief is based on three points: 1) the actual share of investments impacted by the new tax regime is estimated to be less than 25% of the total market; 2) the new law does not structurally shift the tax advantages of stocks relative to fixed income; and 3) the financial markets have thrived previously in the face of much higher tax environments.

One additional lever that could help drive the market higher would be a shift in funds back towards the stock markets. As investors removed more than $250 billion from stock mutual funds in 2008 and 2009, they are likely regretting this move with the global economy having stabilized and stocks having performed heroically over the last 12 months.

Looking forward, we believe that there remains a higher likelihood of continued market gains through next year. However, this path is likely to be more uneven than the rocket ship ride upwards experienced over the last year.

Performance as of 3/31/10

	Close	Month	YTD	1 Year
DJIA	10,856.63	5.31%	4.82%	46.83%
S & P 500	1,169.43	6.03%	5.39%	49.77%
NASDAQ Comp.	2,397.96	7.14%	5.68%	56.87%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	3.83%	3.84%	2.68%

Planning Thoughts

While we have discussed this issue several times in recent years, we strongly believe that the current low mortgage rate environment will soon pass. To take advantage of the current situation, we have recently assisted several clients in refinancing their existing mortgages. At the time of this writing, 30-year mortgage rates are around 5.0% with 15-year mortgage rates being beneath 4.5%; both sets of rates are now close to 40-year lows. With the Federal Reserve about to end its mortgage intervention efforts and the U.S. economy slowly recovering from last yearôs economic crisis, mortgage rates are unlikely to go much lower and are far more likely to shortly start climbing meaningfully.

Depending upon your long term housing plans, a refinancing can make sense if you are able to reduce your interest rate by at least 1/2 percentage point. If you would like us to help you evaluate the suitability of a possible mortgage refinancing, please do not hesitate to call.

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