

Market Highlights

Sometimes a picture really is worth a thousand words. While we usually shy away from technical analysis, this is one time when the tape truly does tell the story. During the first quarter, the market fell and selling volume increased until March 6th. Ever since then, the market's trend has been almost straight up. In particular, Financial stocks staged a strong reversal as the recession showed signs of slowing. In anticipation of economic improvement, investors committed some of their hoarded cash to the stocks that had been most beaten down in recent markets. This bargain hunting also resulted in money being pulled from the most defensive sectors (Consumer Staples and Utilities) and placed in the more cyclical sectors (Materials, Information Technology, and Consumer Discretion).



Many investors feel this surge is simply a bear market rally and they may be right. Since earnings have not increased markedly, the recent price appreciation must be attributed to P/E expansion. While the increase in investor confidence is certainly welcome, for these price levels to hold we need earnings improvements in the second quarter. As a precaution, we have maintained our defensive posture and foregone the temptation of homebuilders, autos, money center banks and big ticket retailers. We continue to emphasize the importance of asset allocation and staying fully invested. Trying to time the market is a losing game and experience has shown us that holding alternative asset classes helps dampen volatility over the long run. Times like these make it tempting to deviate from this discipline, but this is exactly the wrong time to do so.

~ Richard L. Ware, Senior Vice President - Equity Manager

Performance Attribution

For the first time in 15 quarters, our stock picking, sector weighting and asset allocation all detracted from performance, albeit slightly. We outperformed for both January and February, but ended up .25% under the Lipper Large Cap Value benchmark for the quarter because of our defensive positions in March's unprecedented rally. In the alternative asset classes it was real estate that caused the greatest problems. In weighting sectors it was the under-performance of Consumer Staples and the out-performance of Information Technology that hurt us. In picking stocks, it was the defensive focus which caused us to lag when the market reversed course. Considering the market's volatility and the unpredictability of government intervention, it was another good quarter with our portfolios weathering the storm and well positioned to excel as the economy recovers.

Quarter	Stock Picking	Sector Weighting	Asset Allocation
3Q2005	+	+	+
4Q2005	-	0	+
1Q2006	+	+	+
2Q2006	+	-	+
3Q2006	+	0	-
4Q2006	+	-	+
1Q2007	-	+	+
2Q2007	-	+	+
3Q2007	-	+	+
4Q2007	+	+	-
1Q2008	+	-	-
2Q2008	+	+	+
3Q2008	+	0	-
4Q2008	+	+	-
1Q2009	-	-	-
Success Rate	67%	67%	60%

TCVA Equity Model Portfolio

