

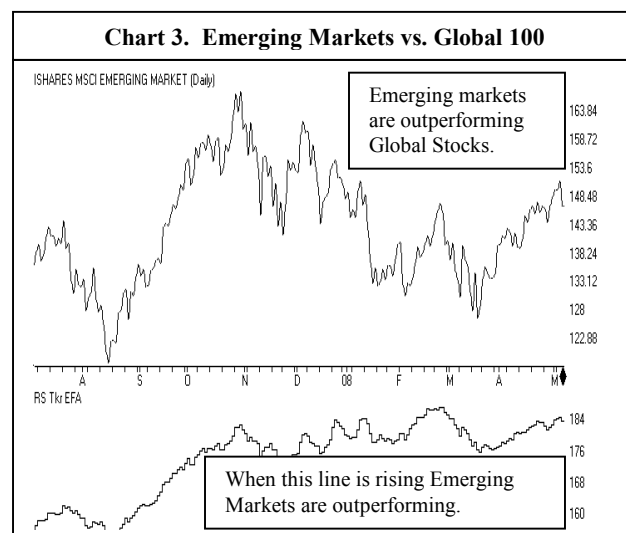
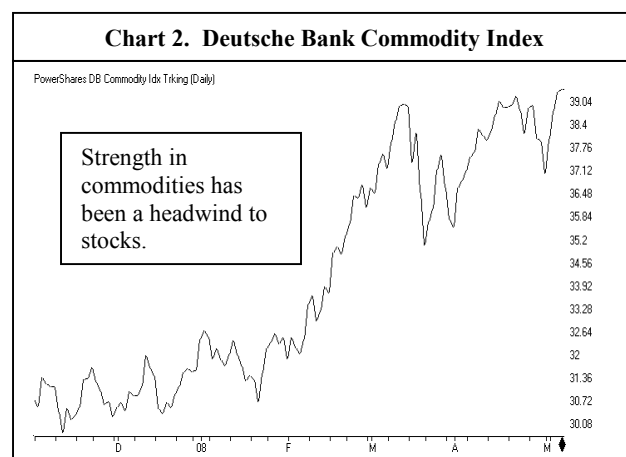
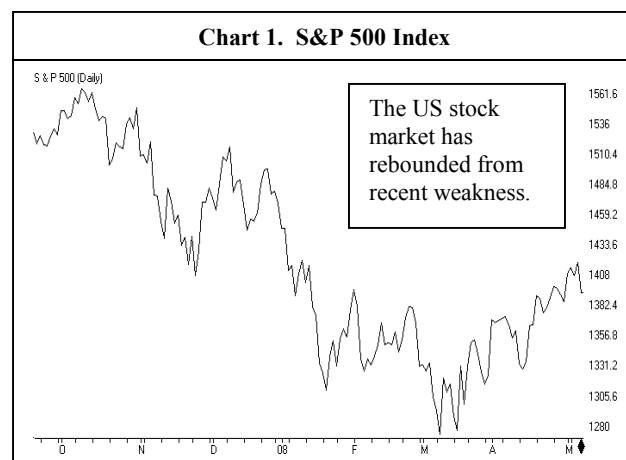


## May Market Commentary

April marked the first positive month for the S&P 500 since October of 2007. The S&P 500 rallied 4.87% in April. With the Fed continuing to pump liquidity into the markets and the credit crunch continuing to resolve, investors began looking for buying opportunities. Also, as the beginning of a new quarter, April saw a wealth of companies reporting earnings. In general, overall earnings were stronger than most analysts expected. The stronger earnings helped ease fears on how the credit crunch will affect companies' earnings and brought investors back into equities. This brought a sigh of relief from investors. However, this begs the question, "Will this rally continue?"

One of the market's big concerns is the ongoing increase in commodity price, and the effect it can have on consumer spending. Crude oil struck a new high in April and food prices around the world are increasing at alarming levels. We believe the vast majority of these increases are caused by trading speculation rather than fundamental changes in supply and demand. The decline in the dollar has been a catalyst to the increase in oil prices. The Fed seems to be at the end of the rate cut cycle which has caused the dollar to rally off its lows. Oil inventories are higher than expected and, with global growth slowing, demand should continue to fall. While we continue to have small positions in the energy markets, for the reasons stated, there is concern that we could soon see a large correction in this area. Therefore, we have been leery of heavily overweighting oil and commodities.

We are looking for the US and emerging markets to continue leading the markets forward. Valuations in the US, combined with the liquidity being created through fiscal and monetary policy, lead us to believe the US markets will continue to outperform going forward. Emerging markets also have a compelling story; they have held up extremely well through the volatility and should continue to thrive with the increase in the appetite for risk. Chart 3 shows that emerging markets have outperformed the Global 100 for all of April and we look for this trend to continue.





In the US, we continue to overweight large growth. Chart 4 shows that large companies have been performing better than small companies. In general, larger companies do business on a global stage while smaller companies tend to be more reliant on the domestic economy. With domestic growth continuing to slow, larger companies' global presence enables them to weather domestic slowdowns. We expect the out-performance of large caps to accelerate in the coming months.

Growth companies have continued to outperform value companies and we don't see this changing anytime soon. The S&P growth index has a larger weighting in sectors with global business exposure and, for the reasons mentioned earlier, this favors growth. The weak dollar should also help growth firms improve their profit margins. Chart 5 illustrates the out-performance of growth over value. We expect this trend to continue for the foreseeable future.

In conclusion, we believe the worst of the credit crunch is behind us and we are seeing more stability in the markets. We look for this stability to continue and the market to continue to trend upwards. It is possible that we could see short-term setbacks as there continue to be headwinds, including the increase in commodity prices and unknowns in the housing markets. We continue to monitor the markets daily, keeping a watchful eye on developments that influence the market.

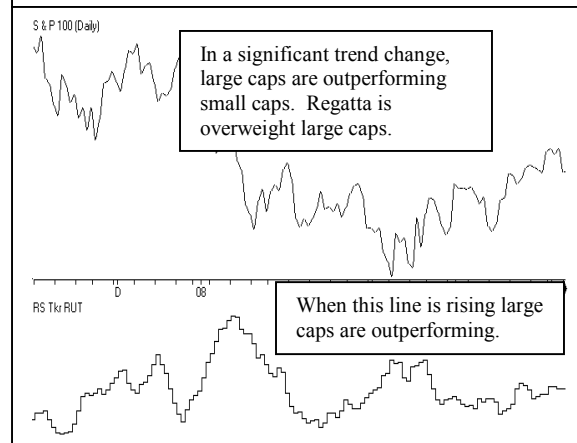
We are proud to announce the redesign of our new website. We are adding the finishing touches, but, in general, the redesign is completed. Please visit our new website and give us any feedback you may have on these improvements.

We sincerely thank you for your continued patronage and support!

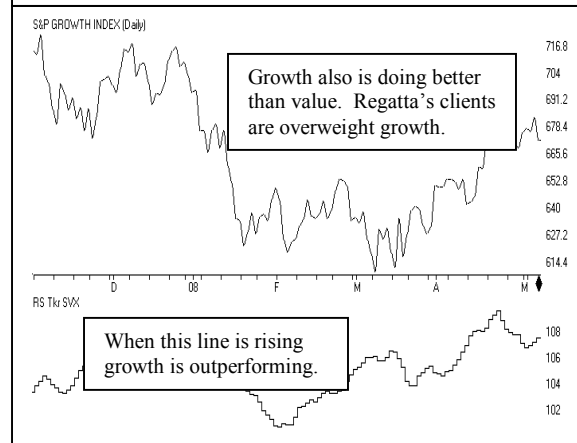
The Regatta Research Team

P.S. To add a friend or family member to our monthly market update, email us at [info@regattaresearch.com](mailto:info@regattaresearch.com)

**Chart 4. S&P 100 vs. Russell 2000**



**Chart 5. S&P Growth vs. Value**



**Disclosure**

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