WINFIELD
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Customized Investment Portfolios and Private Wealth Advisory Services

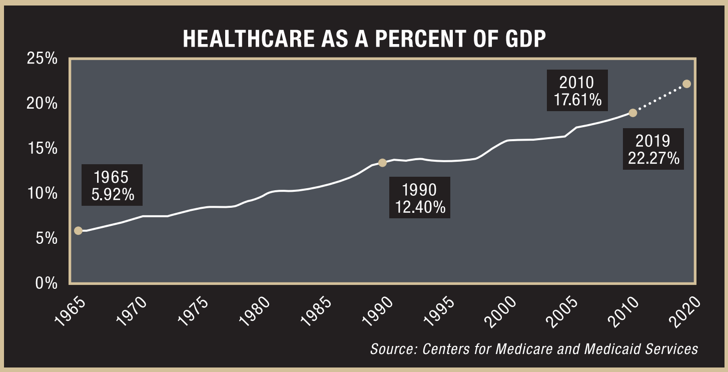
MARKET COMMENTARY

The recovery from the Great Recession of 2008-2009 continued in the first quarter of 2010. US GDP advanced an estimated 4.0%, the S&P 500 gained 4.9%, and the ISM manufacturing index reached 59.6, its highest level since July 2004. Corporate profits surged 43.2% in the second half of last year, the biggest gain for two quarters since 1987. First quarter auto production recovered to an annualized 12 million unit run rate, another sharp gain over last year and a recovery towards more normal annual production of 15–16 million units. Substantial liquidity remains on corporate balance sheets with cash of $1.0 trillion, $3.2 trillion if financials are included, which is the highest level as a percent of assets (11%) in 60 years. High cash levels should precipitate capital equipment spending, mergers and acquisitions, and increased dividends. Inflationary influences are tepid as unemployment hovers around 10%, and capacity utilization leaves sufficient slack. So in many sectors, the economic news is positive, portending further growth for the rest of 2010.

Perhaps the most important event of the first quarter of 2010 was the passage of the Patient Protection and Affordable Care Act. The new act proposes to provide healthcare insurance to 32 million uninsured Americans. The government will set up insurance exchanges so qualified persons receive subsidies to be used to reduce their premiums. Pre–existing conditions will not prevent coverage, and existing policies cannot be canceled. Firms with 50 or more employees must provide coverage or be fined. Medicaid benefits will be sharply expanded.

The cost of the act is an estimated $938 billion over the next ten years. The plan levies a variety of tax increases estimated at $573 billion, including new investment income taxes, Medicare payroll increases, as well as surtaxes against pharmaceutical companies, device makers and health insurers. Another $202 billion will come from cuts in the Medicare Advantage plans. The Congressional Budget Office (CBO) estimates the act will reduce the Federal deficit by $143 billion over the next decade. However, depending on the timing of the new taxes, sufficient revenues may not be collected to lower the deficit. According to an analysis by Barclays, only $21 billion of the $573 billion of tax increases will be received by 2013. There is the likelihood of additional adjustments in the legislation which could alter these estimates. Conversely, significant government expenditures will not begin until 2014 to set up the insurance exchanges and the expansion of Medicaid. Time will tell.

The structural complexity of healthcare coverage has snowballed in the past several decades. The combination of an aging US population and rampant medical cost inflation has led to a staggering national burden. According to the Centers for Medicare and Medicaid Services (CMS) in 1965, healthcare expenditures (public and private) were a mere 5.9% of US GDP but climbed to 10.9% by 1990. Today, healthcare is the single largest industry in the US, an estimated 17.3% of US GDP. In all, CMS estimates that by 2019 total healthcare expenditures will exceed $4.4 trillion per year (22.3% of US GDP), up from an estimated $2.4 trillion in 2009.



While financing the Patient Protection and Affordable Care Act remains an issue of great debate, the expansion of coverage should benefit various sectors of healthcare. Over the coming years, hospitals should see significant improvements in bad debts, and PBMs (pharmacy benefit managers) should benefit from increased prescriptions and the use of generic drugs to lower costs. With improved finances, hospitals will likely step up expenditures on new facilities, research and electronic medical records in an effort to lower costs. On the negative side, there will be some drag as the result of new taxes on consumers and businesses, but in the early years of implementation, the costs should be minimal.

Our constructive view of the equity markets stays intact with a better understanding of the new healthcare act. A few months ago, numerous forecasters were predicting a double dip of the world economy, but it is increasingly clear the Great Recession ended in 2009. The sustainability of the global economic recovery is gaining strength. Yet, investors remain cautious with over $3 trillion in money market funds. Collectively, cash is about 30% of the value of the S&P 500, a level not seen since 2002. These funds will likely work their way back into the equity markets as economic conditions improve.

MACROECONOMIC OUTLOOK

	January 2010	April 2010
US GDP	Positive	Positive
Inflation	Neutral	Neutral
Employment	Neutral	Neutral
Productivity	Positive	Positive
Corporate Profits	Positive	Positive
Consumer Debt	Negative	Negative
International Growth	Positive	Positive

ROTH IRA CONVERSION PRESENTATION RESCHEDULED

In our January 2010 newsletter, we announced a seminar to discuss Roth IRA conversions. The event was previously scheduled on Wednesday, March 3, but was cancelled due to flooding at the event site. The new date for the seminar is Wednesday, May 5, at Westwood Country Club in Rocky River, Ohio. Winfield will co-host the event to review the tax and estate planning issues surrounding Roth conversions. Please watch for details on our website to attend, participate real-time via the internet or listen to the replay.

RECENT CHANGES IN FEDERAL TRANSFER TAX LAW

The federal transfer tax system shifted dramatically on January 1, 2010. A summary of the major changes in the tax rates, exemptions for the federal estate tax, the federal generation-skipping transfer (GST), and the federal gift tax are listed below:

	2009	2010	2011 (and beyond)
Federal Estate Tax Rate	45%	NA	55%
Federal Estate Tax Exemption	$3.5 M	NA	$1M
GST Tax Rate	45%	NA	55%
GST Tax Exemption	$3.5 M	NA	$1M
Gift Tax Rate	45%	35%	55%
Gift Tax Exemption	$1M	$1M	$1M

The changes in the law were created in 2001 by legislation that included a 10-year sunset provision but was intended to lead toward permanent estate tax repeal. Unfortunately, Congress was unable to approve legislation to extend the law in 2009. The suspension of the federal estate tax and GST taxes may cause confusion in estate plan documents. We encourage you to contact your attorney to review your estate plan if this issue is of concern.

MARKET PERFORMANCE

	2009	2010 YTD
Dow Jones	22.60%	4.81%
S&P 500	26.50%	5.41%
Nasdaq	43.89%	5.68%
Russell 2000	25.22%	8.51%
MSCI EAFE	27.55%	.22%
Barclays Agg	5.93%	1.78%

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PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements to meet investment objectives

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- Manage assets with a long-term growth strategy while meeting investment policy requirements

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- Customize investment portfolios to meet investment objectives and lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to meet investment objectives and lessen risk of concentrated assets

RETIREES

- Customize investment portfolios to meet investment objectives with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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