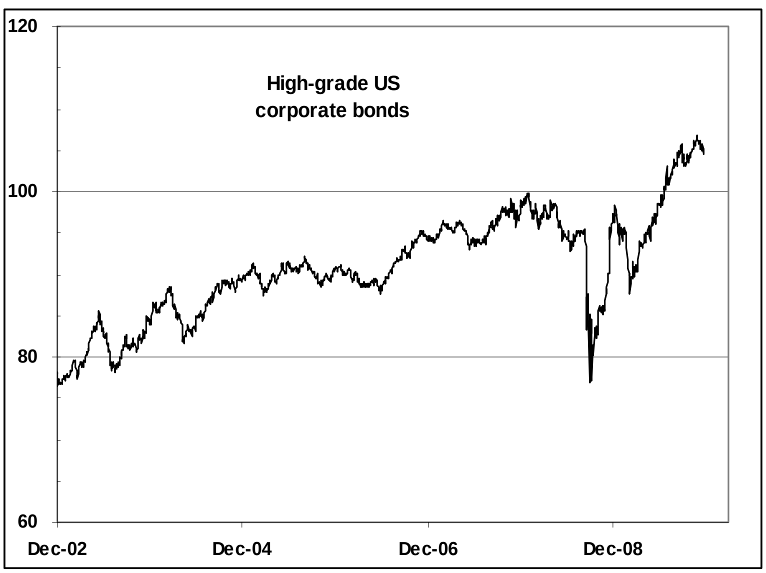
CORE Comments
ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

December 27, 2009

Ahead to 2010

The chart below, showing the total return for high-grade US corporate bonds, depicts the superb recovery of corporate bonds in 2009. High-yield corporates did even better. Prospects for corporate bonds remain favorable and we retain large investments in them.

To give context to the present situation and what it holds for investment assets in 2010, a few words (once again) on the situation 15 months ago may help. As the crisis worsened during the summer of 2008, risks loomed very large and the speed with which conditions worsened was breathtaking. The Federal Reserve, Treasury, and Congress were obliged to make decisions of enormous consequence with little time to reflect on possible outcomes. Fannie Mae, Freddie Mac, and AIG were given essentially unlimited support by the Treasury and the Fed. Over a fateful weekend in September 2008, Lehman Brothers was allowed to fail and Merrill Lynch was pushed into the (willing or unwilling) embrace of the Bank of America. Policy makers knew that if Merrill failed, Morgan Stanley, Goldman Sachs and GE would collapse very quickly. The world's banking systems would fail and severe economic depression would engulf the world.



The actions by the Fed, Treasury, and Congress (and their counterparts in other countries) turned out to be sufficient to prevent the collapse of the banking system, the world's economy, and financial markets. The damage that did occur was bad enough. Let one example stand for many: In the fourth quarter of 2008, the dollar volume of world trade shrank at the rate of 56% per year, a decline in trade without precedent.

Recovery. In the spring of this year, it began to appear that the worst would be avoided: private credit markets sputtered back to life, stock markets ended their free fall and began to recover, and the economic recession began to abate. By the summer, investment assets of all kinds were rallying very strongly and some major economies, including America's, began to expand. In this fourth quarter of the year, investment assets continued to appreciate and economic growth broadened to include most of the world.

And so, into 2010. The Fed promises that the extraordinary monetary conditions--designed to effect the recovery in confidence, in economic activity, in the credit markets, and in investment assets--will remain in place for "an extended period." Given how close to the brink we came a year ago, the Fed will certainly err on the side of maintaining accommodative monetary conditions too long, rather than risk a second round of catastrophe by tightening conditions too soon. Short-term interest rates will stay near zero and the measures of "quantitative easing" will only slowly be unwound. Economic

By

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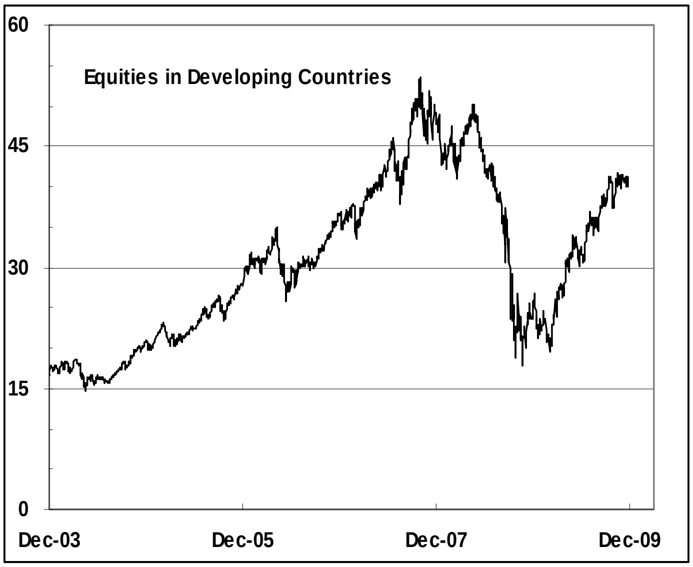
growth will be reasonably strong in the coming months. Even the labor market will improve and employment will grow after this disastrous two-year period of job losses.

The strong increase in stocks from emerging economies is shown in the chart below. The dynamic development in Asia and Latin America will continue. We will continue to invest in these regions.

Investment assets, including stocks, commodities, and corporate bonds, will continue to be strong in 2010, but the pace of their gains will surely be slower than we observed in the middle of 2009. Already the rally in stocks, bonds, and commodities has moderated from the explosive mid-year rate. We should expect only modest price gains in coming months, but favorable returns are likely.

As we see it, the investments with the most promise include equities of developing economies, especially Brazil, Indonesia, and other South Asian and East Asian countries. Commodities and energy will also appreciate. We expect that the dollar's value will continue its decline against many currencies. However, two other principal currencies, the yen and euro, are both beset with local problems, Japan with seemingly endless deflation and recession, poor public finances and very unfavorable demographics, and Europe with severe economic weakness in its peripheral countries, Greece, Italy, Spain, and Ireland. Hence we focus our foreign currency investments in Australia, Canada, and emerging economies.



Inflation in investment assets, not consumer prices. The unprecedented size of the federal deficit--14% of GDP, three times the level of deficits early in the decade--gives rise to fears that rampant inflation lies ahead. The happy irony for investors is that deficits and excess liquidity will cause inflation, but of a kind we favor: The prices of investment assets will become inflated, while consumer price inflation will remain subdued.

Economic activity has been so slow and private borrowing (that is, borrowing by people and companies) so weak that government deficit spending and government borrowing is merely making up for the absence of spending and borrowing in the private sector. Monetary conditions and fiscal policy are causing inflation right now --but the inflation is in asset prices not consumer prices. Excess liquidity and deficit spending are causing prices of stocks and bonds and commodities to rise, but slack in labor markets and factory output keeps consumer prices and wages very low. Consumer price inflation may lie ahead, but it is not the problem for 2010.

Each year Core Asset Management files with the SEC a form ADV with information about our company. If you would like a copy of Part II of Form ADV, please contact us.

As the year ends….

Please accept our thanks for the privilege you have given us at Core to serve you and to invest your capital. The personal side of this business--the individual work with you--is a pure pleasure. The intellectual side of it--the attempt to understand how the events in the world affect investments--is endlessly fascinating. These last two years have put a finer edge to all of this: one could sometimes have wished for a more placid occupation than the investment business over this period.

We deeply appreciate the opportunity to work with you and for you, and look forward with anticipation to the coming year. We wish for you peace, health and prosperity in the year ahead.

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