

Weekly Commentary April 5, 2010

THE FIRST QUARTER IN REVIEW

Data as of 3/31/10	1st Quarter	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	4.9%	46.6%	-6.3%	-0.2%	-2.5%
DJ Global ex US (Foreign Stocks)	1.6	59.2	-6.6	3.8	0.7
10-year Treasury Note (Yield Only)	3.8	2.7	4.7	4.5	6.0
Gold (per ounce)	1.0	21.7	19.0	21.1	15.0
DJ-UBS Commodity Index	-5.1	20.4	-8.4	-4.0	3.0
DJ Equity All REIT TR Index	9.9	106.5	-10.4	4.0	11.8

Notes: S&P 500, DJ Global ex US, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable or not available.

STOCK MARKET RALLY CONTINUED

The stock market followed 2009's powerful rally with a strong performance in the first quarter. The S&P 500 rose 4.9%, excluding dividends, which was its best first-quarter percentage gain since the heady days of 1998, according to MarketWatch. Strong corporate earnings, solid corporate balance sheets, and upbeat manufacturing data helped support the stock market's bullish results, according to *The Wall Street Journal*.

It wasn't a straight line up, though. Between late January and early February, the Dow Jones Industrial Average dropped more than 7% as news of credit tightening in China, sovereign debt woes in Greece, and debates in Washington on healthcare and bank reform helped scare investors, according to *The Wall Street Journal*. The scare was brief as investors quickly "bought the dip" and sent the averages higher by the end of the quarter.

INTEREST RATES WERE STABLE

The yield on the 10-year Treasury was essentially unchanged during the quarter as investors continued to snap up all the debt the government offered, according to *The Wall Street Journal*. Demand for corporate and high-yield bonds was robust which helped keep those rates at relatively low levels.

Some investors are concerned that our large budget deficits may result in a glut of bonds, which could cause interest rates to rise substantially. That could put the brakes on an economic recovery, but this worry has not come to fruition--yet.

THE DOLLAR ROSE AGAINST THE EURO

The big story in foreign currencies during the first quarter was the strength of the dollar against the euro. According to *The Wall Street Journal*, the dollar rose 6% against the euro as debt concerns in Greece, Portugal, and Spain weighed on the common currency. Investors are also evaluating the relative strength of the U.S. economy versus the euro countries and it appears that a consensus is building that our country may grow faster. If that occurs, it may mean interest rates could rise sooner in the U.S., which would also help support a strengthening dollar.

DOUBLE DIP RECESSION LOOKING LESS LIKELY

Recent economic indicators suggest the economy is healing from the severe recession of 2008-2009. For example, the Commerce Department said consumer spending rose in February for the fifth consecutive month. Consumer spending makes up about 70% of gross domestic product, according to Morningstar, so a rise in this number bodes well for the economy. The manufacturing sector is looking robust, too, as the ISM manufacturing diffusion index rose to 59.6% in March, which was its highest level since July 2004, according to MarketWatch. Readings over 50% indicate that more firms said business was improving than said it was worsening. It was also the eighth straight monthly increase.

Just after the quarter ended, the Labor Department released the March payroll report and it showed a gain of 162,000 payroll jobs. It was the third gain in the past five months and the largest increase since March 2007. This report, coupled with other economic data, prompted Robert Hall, the head of the National Bureau of Economic Research's Business Cycle Dating Committee, to say that it is "pretty clear" that the deepest recession since the 1930s is over, according to a Bloomberg report. Hall's organization is the "official" source on declaring the beginning and ending of recessions. Jeffrey Frankel, another member of the business cycle dating committee, said, "The most likely date for the recession's end would be midyear of 2009," according to the same Bloomberg report.

This mid-2009 date would seem to confirm the validity of the stock market rally that we've experienced over the past year. The market started rising in March 2009--not too far ahead of the time that Frankel suggested the recession ended.

SUMMARY

The stock market performed well in the first quarter as earnings growth continued to shine and the economy continued to mend. Longer-term issues such as large government deficits, housing weakness, and the withdrawal of stimulus money hang over the markets like a black cloud, but so far, these concerns have not deterred investors.

Weekly Focus – Think About It

"Economic progress, in capitalist society, means turmoil."
-- Joseph A. Schumpeter

Best regards,

Jim

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* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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