COMMENTARY

April 9th, 2009

Dear clients and colleagues,

As I write this comment, we are in the 4th week of an impressive market rally that saw the major indices jump more than 25% since their multi-year lows reached on March 6th. Leading this rally, Technology, Small Cap, Emerging Markets and, Commodities, the most economy sensitive asset classes.
Is this just a bear rally and an occasion to sell stocks as many experts suggest?

We mentioned in prior comments that we believe Q2 should witness a rebound in the economy. The next few weeks' earnings news will give us more information on expectations for Q2. So we believe that the market will continue its rally for a few more months. The real hurdle will come later. The impact of the various stimulus packages should start to be felt later in 2009 and will determine if the market will continue its rise.

In the first quarter, the MSCI World Small Cap index outperformed its large cap counterpart by 1.46%. However, in the US, the largest country in the benchmark, small cap underperformed large cap by over 6%. If the market rally continues, we expect the small cap outperformance to continue as US small cap should close that gap with larger ones.

The best sectors in Q1 were IT (the Nasdaq is now up ytd), the consumer discretionary sector, energy and materials, the 4 most economy sensitive sectors. Financials, Staples and Industrials were the worst performing sectors.

In Q1-09, we added 3% over our benchmark. Particularly comforting, was that we added value in February, when markets were down and we also added value in March with markets strongly up. Our value-added continues to come mainly from stock selection. In the quarter, we sold 7 companies which we replaced by 7 new companies. The portfolio continued to have 57 names at the end of the quarter.

We should not make many changes going forward. We will maintain a good sector diversification and focus on stock picking. In the near term, we continue to overweight healthcare, industrials, and consumer sectors, and underweight financials and technology. We continue to be concerned with the Banking sector. We think that the problems related to commercial loans and commercial real estate will aggravate in the coming months and that the Banks are not sufficiently provisioned. In addition, consumer credit should continue to deteriorate as well especially with the rising unemployment figures.

Have a good week.

The Global Alpha team