THOMAS FINANCIAL

Second Quarter 2009

Quarterly Economic News

The signs of a nascent market rebound that were observed at the end of the first quarter became stronger and extended throughout the second quarter. While major equity markets are still below their record highs, they are far from the lows witnessed in early March. Overall, equity markets benefited from the improving credit situation and from indications that the worst economic slump since the Depression might be easing. The government-directed bankruptcy of industrial icon General Motors, and of its automotive competitor Chrysler, fortunately did not derail the rally.

Market Rally

Equity markets staged a broad rally in the second quarter. Improving credit markets helped the equity markets as investors searched for higher returns, and investor confidence was up as companies were able to tap the capital markets for equity and debt financing.

International stocks joined the global rally with the benchmark international index MSCI EAFE returning 23.8% for the quarter. Some emerging markets showed dramatic growth - India's stock market gained 49% and China's benchmark Shanghai index gained 25%.

Many indices are now in positive territory for the year, which has helped soothe investors' nerves. The Dow Jones Industrial Average (DJIA) jumped 11% in the quarter, while the broader-based S&P 500 was up 16% and NASDAQ up 20%. The following table shows returns for various indices:

Index	2nd Qrt	1 Year	5 Year	10 Year
S&P 500	15.9%	-26.2%	-2.2%	-2.2%
Russell 2000	20.7%	-25.01%	-1.7%	2.4%
MSCI EAFE	23.8%	-33.6%	-0.3%	-1.0%
Barclays Agg. Bond	1.8%	6.1%	5.0%	6.0%

Source: Wall Street Journal July 6, 2009

The S&P 500 is a commonly used measure of common stock total return performance.

The Russell 2000 is a commonly used measure of small capitalization stocks.

The MSCI EAFE is a commonly used measure of common stock total return performance of international markets.

The Barclay's Aggregate Bond Index (formerly Lehman Brothers' Aggregate Bond Index) is a commonly used measure of the bond market.

All referenced indices are unmanaged and not available for direct investment.

Past performance is not a guarantee of future results.

End of an Era

General Motors and Chrysler received government loans late last year, but by late winter, it became apparent that they were not going to survive. Both automakers began telegraphing and choreographing their bankruptcies, the expectation of which limited the market impact when they actually filed for bankruptcy in the second quarter. Bloated by a massive infrastructure, high operating costs, high debt levels and a reliance on large SUVs, GM and Chrysler, once the symbol of U.S. industrial strength, were unable to withstand the confluence of high energy prices, the credit crisis and the recession. Chrysler was in bankruptcy for only forty-two days, as the bulk of its assets were sold to Italian automaker Fiat, along with $6.6 billion in government exit financing. GM, the 100-year old auto giant, filed for bankruptcy on June 1. A swift bankruptcy would be desirable for GM as well - new agreements with the United Auto Workers union and bondholders to swap debt for equity in the "New GM" may help speed the restructuring process. If approved in bankruptcy court, GM plans to sell its assets to the "New GM" and continue to operate its iconic brands, including Chevrolet and Cadillac (its Saturn and Hummer brands would be sold off). The current plan has the Treasury investing nearly $50 billon into the "New GM" for a 60% stake.

"Fiat Deal with Chrysler Seals Swift 42-Day Overhaul" Michael J. de la Merced and Micheline Maynard, New York Times, June 11, 2009.

"Obama Is Upbeat for GM's Future" Bill Vlasic and Nick Bunkley, New York Times, June 2, 2009.

The Bond Market

The yield on the ten-year Treasury bond started the quarter at 2.69%, reached nearly 4.00% in early June, and finished the quarter at 3.52%. The benchmark ten-year Treasury bond was impacted by a variety of factors. The improving credit environment caused some investors to exchange low yielding Treasuries in favor of other higher yielding investments. Concerns over government borrowing, the potential for inflation and signs that the worst of the economic slump might be over put upward pressure on rates. While Treasury bonds slumped, the broader bond market improved, including high yield bonds that returned 23%. Investors' search for yield is a positive sign that the credit crisis is easing.

"Treasuries Wind Down Tough Quarter" Ming Zin, Wall Street Journal, July 1, 2009.

"Risk Pays Off, While Treasury Plays Run Around" Serena Ng and Rob Copeland, Wall Street Journal, July 1, 2009.

"Dow Rose 838.08 in Quarter" Tom Lauricella, Wall Street Journal, July 1, 2009.

"Emerging Markets Propel Global Rebound" Annelena Lobb, Wall Street Journal, July 1, 2009.

Throw Away The Key

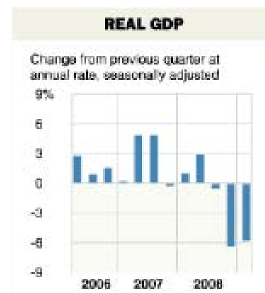
The credit crisis and related recession have exposed many dubious corners of the financial world, from scurrilous home lending practices to high risk credit default insurance business. No episode of the financial crisis was more heinous than the vast Ponzi scheme orchestrated by Bernard Madoff that robbed thousands of investors of their life savings. His crime, the largest financial scam in history, was exposed when market declines led to multiple withdrawal requests that could not be honored. Madoff plead guilty to fraud, money laundering, perjury and theft in February, and was sentenced at the end of June. He received 150 years in federal prison, where he will spend the rest of his days (there is no parole in federal prison). A total of $231 million in Securities Investor Protection Corporation (SIPC) funds has been committed toward 543 investor claims. An additional $2.741 billion has also been authorized for future potential recovery - how much the defrauded investors' might ultimately receive will depend on how much the appointed trustee can recover from the search for assets tied to the fraud. Teams of lawyers and forensic accountants are working to uncover the stolen money and determine exactly how Madoff kept his crime a secret for so long.

"'Evil' Madoff Gets 150 Years in Epic Fraud" Robert Frank and Amir Sfrati, Wall Street Journal, June 30, 2009.

http://www.sipc.org/media/release01July09.cfm

Looking for Greenshoots

Greenshoots is the term market pundits and economists are using to describe signs of economic recovery. Some notable greenshoots: consumer confidence has shown steady gains since February, the decline in manufacturing has slowed in the last six months, the housing market is showing signs of turning around as sales are increasing and price declines are decelerating, and the first quarter GDP was revised upward to -5.5%, which was viewed positively by the market.



Source: Wall Street Journal Chartbook: wsj.com

Furthermore, a Wall Street Journal survey of fifty-two economists expects economic growth to recur in the third quarter.

Hurdles that could slow the burgeoning growth are energy prices (oil is nearing $70 per barrel and gas is nearing $3 per gallon), higher interest rates that translate to higher mortgage rates, and persistent, high unemployment.

Unemployment is a lagging economic indicator, which means that improvements in employment tend to trail other areas of economic recovery. The unemployment rate, one of the most visible signs of economic health, reached 9.4% in May and 9.5% in June (based on data released after quarter end).

"US Economy: Manufacturing Shrank Least Since August" Courtney Schlisserman and Bob Willis, Bloomberg, July 1, 2009.

"Consumer Confidence in U.S. Slipped to 49.3 in June" Courtney Schlisserman, Bloomberg, June 30, 2009.

"Economists See Fed on Hold Until 2010 Amid Jobs Weakness" Phil Izzo, Wall Street Journal, June 11, 2009.

Conclusion

It is too early to tell if the economy can build on its recent improvements - there are still potential roadblocks, including high oil prices and the threat of rising interest rates that may clamp the economy and the housing market. Rising unemployment, which has climbed nationally to almost 10%, also continues to put a damper on economic confidence.

Still, there are reasons for optimism. The stock market is a leading economic indicator, and the second quarter's global stock rally was a positive sign and a welcome relief to weary investors. Markets responded to signs that the credit crisis was easing and that the worst of the economic slump was over. Much of the economic stimulus has yet to work its way into the economy and inflation does not appear to yet be a concern, which should keep interest rates low. A sense of cautious optimism seems to be the common theme as we look to the third quarter.

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