



Palisade Asset Management, LLC Quarterly Perspectives



Market Recap - 2nd Quarter 2009

2009 Benchmark Index Returns

Index	April/May 2009	YTD 2009
S&P 500*	15.26	3.13
DJIA*	12.04	-1.68
NASDAQ	15.67	12.51
MSCI EAFE	23.37	6.46
Barclays Int.		
Govt/Corp	1.19	1.15
Barclays		
3 Yr Muni	0.43	2.77

*With Dividends

“We are experiencing a bull market rally in a bear market.”

“We’ve turned the corner in this recession!”

Daily, we read articles and opinions that support both of these somewhat opposing statements. At Palisade we hold the opinion that we are ‘closer’ to a recession’s end, but do not support the notion that further market difficulties are behind us. We are encouraged by the current positive investor sentiment, but believe that the excess in housing and the lack of credit are two economic obstacles that will continue to be a drag on the markets.

To recap the first two months of the second quarter, there has been an enormous upward surge in all equity markets. From the low in early March (3/9) the S&P 500 index is +36%, the NASDAQ +40%, the Russell 2000 index +50%. The international markets saw similar results with the MSCI EAFE index +51% and the Emerging Markets Index +60%. Within each index, there has been an even greater move from the more volatile sectors. With fixed income, we see far less volatility in the intermediate term Government and Municipal bond indexes (flat and +2%), but the more volatile High Yield bond index is up over 25% since the March low.

How long this bull rally will continue is uncertain. Historically, we know that when the equity markets lead us out of recession, the ride will most likely be a bumpy one. For that reason, we like the stability of the high quality growth, dividend paying stocks that we own. They are getting rewarded less in this short term recovery, but stand to benefit greatly when we turn the corner on this economic recession.

For the Fixed Income markets, we know the negative consequences to principal if the yield curve continues to steepen. It is our opinion that there are too many potential negative surprises that can occur near term. With that in mind, we like quality, shorter term fixed income securities. Although the yields are lower, we also like non-mortgage government bonds and we are carefully buying certain higher quality corporate bonds.

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Our Team at Palisade Expands

We are pleased to announce that Steve Landberg and Tom Welch have both joined Palisade’s Wealth Management team as partners and owners. These highly experienced Trust & Investment Executives bring added expertise to our growing firm. In addition to their vast experience in Wealth Management, Tom has a degree in law and Steve holds the CFA designation. Both Steve and Tom come to us from BNC National Bank’s Wealth Management group with whom Palisade has an investment management relationship. BNC Bank will continue its partnership by offering Trust and banking services to Palisade clients.

With such a difficult time in the economy, we are pleased to have Tom & Steve join Palisade. Building strength during difficult times has always been our company philosophy. Similar to strengthening our portfolios, the addition of Steve & Tom will greatly broaden the expertise of our firm and will allow Palisade to navigate more effectively for our clients as the markets begin their recovery.

Steve will be developing and managing clients and managing our Trust services area. Tom will be directing our business development. Welcome Steve & Tom!

Hazards of Streamlining Personal Trust Services

By Tom Welch

Over the past several years, a growing trend has developed where large corporate trustees outsource their small (often defined as less than \$3 million in assets) trust services to 1-800# call centers. Is this in the best interest of the client or beneficiaries? Additionally, are mutual funds really necessary for prudent fiduciary diversification, and do the higher cost and negative tax consequences justify this structure? I submit that the answer is “NO”.

Personal trusts are created for the specific needs of the beneficiary and require the understanding of and attention to those needs. This understanding and attention require personal and consistent knowledge by the trustee of the needs of the beneficiary. It is my experience that a grantor establishing a trust does not knowingly name a trustee on the belief that his beneficiary, most often a close family member, will have to use an impersonal 1-800-Trust #/call center where they have not met the beneficiary and do not understand the needs of such beneficiary.

Trustees of these “small” trusts commonly cite that they need to use mutual funds to get proper diversification. Frequently they utilize proprietary funds where some affiliated company of the trustee gets investment management or custody or record-keeping fees, or all of the above. Even if non-proprietary funds are utilized, is this still in the best interest of the beneficiary? A mutual fund often invests in 100 or more securities to gain broad diversification. However, much research has been done to show that a portfolio of 30 stocks gives enough diversification to manage the market risk. So is an over-diversified equity mutual fund with a cost of 1.30-1.50% necessary to get fiduciary diversification? I submit “NO”.

In addition to the make-up and cost structure of a mutual fund, they are often not tax-efficient for personal trusts. Mutual funds generally have substantial tax-exempt/deferred type of accounts held in the fund, and these accounts are not concerned with the high turnover in the portfolio, or with avoiding more costly short-term gains. The average turnover in mutual funds is over 50% per year, whereas an individually managed portfolio like what we manage at Palisade normally has a turnover in the range of 15-20%, generally producing long-term gains. This is much more tax efficient and applicable to trust accounts.

In our view, Trusts are meant to have personal relationships with a known Trustee who understands the needs of the beneficiary. Trust portfolios deserve to be designed to the needs and tax considerations of the interested parties. This is what the clients and their beneficiaries want and deserve. This is what we do at Palisade.

Optimism and Inflation Fears?

By Dennis Ott

Most economic writers are calling for very slow, tepid growth rate in the next few quarters. We argue that this may be much more pessimistic than what the economic realities will bring, but nothing is for certain.

It is our opinion at Palisade that given the pent up consumer and corporate demand and the amount of inventory liquidation which has occurred over the past two quarters, we may experience a more rapid recovery than is being predicted. We also believe that global equity markets are forecasting this quicker expansion. After declining over 20% from year end to the low point in early March, the S&P 500 index has recovered more than 30%. Foreign developed markets have followed and lesser developed markets have shown even better gains.

However, while optimistic about a market recovery, we are concerned with the rapid expansion of the money supply. This occurs when the Federal Reserve either purchases private or government debt issues with newly minted currency. Up to this point, the spike in the money supply has not caused increased inflation worries, but should growth accelerate, which we feel will occur, the Federal Reserve as the monitor of inflation would find it necessary to withdraw funds causing interest rates to rise. With the Federal Government estimated to run a \$1 Trillion deficit this year, the Treasury will be selling over \$2 Trillion in new securities. This larger amount is due to the “rolling over” of existing debt maturities. While the cost of money may rise, we do not expect higher interest rates to derail the recovery.

With corporate earnings expected to be lower for the next several quarters, we are focusing on company’s ‘earnings power’ and dividends when evaluating its value. For example, GE is currently priced at 13 times the earnings expectation for this year, but only about 6 times its earnings power - the earnings achieved in more normal environments. While GE’s dividend has been cut recently, it still yields over 3%. Using these measures, we find value in high quality companies such as GE.