

## I. Market Environment

The Cambridge Financial Group monthly composite of indicators continues to suggest a **favorable** environment for equities. As such, a **full investment posture** is currently recommended with funds invested 100% in favorably ranked stocks for all equity accounts.

**Valuation** measures are mixed. Due to significant write-offs, mostly in the financial sector, and dividend cuts, the P/E ratio and dividend yield on the S&P 500 are in negative territory. The P/E ratio on the S&P 500 concluded the fourth quarter at 27.8x. The yield on the S&P is 3.05%, as of the end of March.

**Breadth** is graded as positive as of the end of March.

**Momentum** indicators remain positive after the decline during the first quarter. Currently, all four indicators in this area are positively graded as of the end of March. Continued movement to the downside over the past several months has resulted in a more oversold situation.

**Interest rate** relationships are positive as of the end of the first quarter. T-Bill rates were higher throughout the first quarter of 2009, finishing March at 0.21%.

The final 20 days of the first quarter finally provided some relief to battered investors as March posted the best monthly gain for the market since October of 2002. Despite the rally from the March 9<sup>th</sup> bear market low, the quarter ended with the worst first-quarter return in percentage terms since 1939.

As the markets continued to disrespect nearly all sectors, Cambridge portfolios also posted a loss of 9.1% for the quarter. Although this represents outperformance on a relative basis, we are disappointed with absolute returns but encouraged by the strong finish to the first quarter.

Although far from being out of the woods, the low posted on March 9<sup>th</sup> feels very much like a bottom. As the S&P 500 made a new low on October 10<sup>th</sup>, 2008, there were 2,901 NYSE stocks that made 52-week lows. The index went lower on November 20<sup>th</sup>, 2008 with 1,854 NYSE stocks registering new 52-week lows. As the bear market continued into 2009 posting a new low on March 9<sup>th</sup>, the number of new lows posted by individual stocks had declined to 827. This is viewed as a positive divergence as fewer and fewer stocks participate as the index set new lows, thus making a strong case for a market bottom.

As we proceed into the second quarter of 2009, we are reminded that a significant portion of the gains experienced

once a shift occurs from a bear market to a bull market tend to be front-end loaded. In fact, of the 14 bull markets since 1930, on average, over 26% of the return came in the first 6 months and over 40% came within the first year. The obvious conclusion is that the majority of gains are accrued in the early months of a bull market, and the cost of being out of the market in the early stage of recovery is potentially huge. During the bear market ending in December 1974, the news continued to be negative and unemployment continued to rise through the spring and summer of 1975. Despite the ongoing negative environment, the DJIA advanced 53% from December 1974 through June 1975. Cambridge Financial Group believes that the investment opportunities before us are very similar to those existing at that juncture in time. As such, we will continue to adhere to our strict and time-tested investment discipline with the anticipation of much better times ahead. Panic and fear have caused the investment pendulum to swing to negative extremes. Patience and discipline will pay off in the end when the pendulum swings the other way, which eventually, it always does.

## II. Performance

| <u>Index</u>                    | <u>Return (%)</u> |             |              |
|---------------------------------|-------------------|-------------|--------------|
|                                 | <u>Q1</u>         | <u>2009</u> | <u>10-Yr</u> |
| <b>CFG Core Portfolio</b>       | <b>-9.1</b>       | <b>-9.1</b> | <b>1.5</b>   |
| <b>CFG Aggressive Portfolio</b> | <b>-4.5</b>       | <b>-4.5</b> | <b>0.0</b>   |
| S&P 500                         | -11.0             | -11.0       | -3.1         |

*\* The respective performances for the CFG Core Portfolio & CFG Aggressive Portfolio are composite figures for all accounts that are invested according to each specific equity strategy. Figures are presented on a net basis - after transaction costs and management fees. 10-Year returns are for the period ending 3/31/09.*

## III. Sub-Sector Portfolios

The names listed below are recommended holdings as of April, 2009.

| <u>S&amp;P</u>      | <u>CFGI</u>       | <u>CFGI</u>     |
|---------------------|-------------------|-----------------|
| <u>Momentum</u>     | <u>Momentum</u>   | <u>Value</u>    |
| Amgen               | Colgate-Palmolive | Air Products    |
| Amazon.com          | EMC Corp *        | Boeing          |
| AutoNation *        | Gilead Sciences * | Bemis           |
| Apollo Group        | Home Depot *      | Cardinal Health |
| BB & T Corp         | Hewlett Packard   | IBM             |
| Cephalon            | McDonald's        | Pitney Bowes    |
| Direct TV           | Microsoft         | Sara Lee        |
| Marsh McLennan      | Oracle            | Sysco           |
| Charles Schwab      | Qualcomm *        | Walgreen        |
| Southwestern Energy | Verizon *         | Wal-Mart        |

\* Indicates addition as of April, 2009. Momentum portfolios are adjusted quarterly. Value portfolio is adjusted annually.

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