



Since 2009 began, the credit crisis has been a dominant theme, with worries of huge corporate defaults and an inability of companies to find lenders.

Falling home values had been a factor contributing to the global economy plummeting because financial institutions gambled on the assumption that US home prices would never fall as drastically as they have. Homeowners have now lost trillions of dollars of wealth, owing more on their homes than they are worth. They cannot sell for what they owe and cannot refinance their home loans, nor can they borrow against their home to finance their consumption.

Although the market value of US homes rose by 1.6% in July 2009 compared with June, it being the third monthly increase in a row, within the past year, home prices are down 13.3% in 20 major US cities. According to the Case-Shiller price index, prices are down 32.6% from the peak, and are now at levels seen in late 2003.

Consumer Confidence & Employment

Since the recession began in December 2007, 7.2 million jobs have been lost and the unemployment rate has doubled. The nation's job losses accelerated in September, driving the unemployment rate to a 26-year high of 9.8%, further dampening the hope of recovery in the near future.

The number of unemployed rose by 214,000 to 15.1 million in September. And of those, 5.4 million have been out of work longer than 6 months, accounting for a record 35.6% of the jobless.

The employment figures also carry a political dimension, as Republicans said the continued job losses proved the stimulus had failed, while Democrats said they proved that government support is essential. According to Vice President Joe Biden, job losses 'would have been far worse' without the stimulus.

The US consumer confidence index fell in September as Americans grew more concerned about the economy, their job prospects and their incomes. The consumer confidence index fell to 53.1 in September from 54.5 in August, reversing part of August's nearly 7-point gain. Consumers remain quite apprehensive about the short-term outlook and their incomes.

According to economists, even with the decline in September, the level of the Conference Board expectations index looks consistent with a modest uptrend in real consumption;

though it is not the strong rebound that typically follows a deep recession.

Commodities

It's been an active year thus far for commodities, with gold prices surging past \$ 1,000 an ounce and crude managing to double in price over the course of six months. As fears of inflation drove many investors to gold, the precious commodity not only broke its 2008 record to hit \$ 1,018.90 an ounce on September 16, but managed to stay above the \$ 1,000 level for six trading days, the longest streak in history. It ended the quarter up 9% to \$ 1,008. Industrial metals such as copper, lead and zinc have seen hefty gains year-to-date, with global economic growth driving demand.

Crude oil spent most of the quarter restrained by weaker demand and high inventory, but with support from a weaker dollar. Crude oil closed out the quarter at \$ 70.61, rising 1.03% for the quarter, also the third quarterly advance in a row.

Natural gas prices tumbled 55% to the lowest level since 2001 in early September as producers continued to pump gas into nearly full storage facilities. Retail prices for regular gasoline averaged \$ 2.469 per gallon on October 1, down 40% from the record level of \$ 4.114 in mid-July 2008. Prices at the pump may even be headed for a bottom in the \$ 2.20 to \$ 2.40 range, but prices may increase anywhere between 50 cents and \$ 1 per gallon by May and June 2010, according to AAA.

Market Overview

The Dow Jones Industrial Average closed the quarter at 9,712.28, up 15% for the last three months. The S&P 500 Index is up 15% for the quarter, ending at 1057.08. The NASDAQ Composite rose 16% in the quarter, finishing at 2,122.42. Yields on 10-year Treasuries closed at 3.309%.

What's ahead? Rising unemployment is now in the forefront driving foreclosures, as another wave of foreclosures from interest-payment-only mortgages is anticipated.

Experts caution that the expiration of the first-time home buyer tax credit and increased foreclosures could put more downward pressure on prices. Some economists believe that when the tax credit expires, prices will resume their downward trend, falling another 5% from current levels, as rising foreclosures and massive unsold homes come back to center stage.

 **NUMBERS TALK**

Percentage of affluent households who report being adviser-directed when it comes to investment decisions....**19.1**

Percentage of financial advisers who do not have a web site...**45**

Percentage of advisers who believe media reports about the economy have left clients feeling “more panicked than ever.”... **39.1**

Percentage of financial professionals who report being very satisfied with their career in 2009...**29.6**

Number of years it will likely take asset managers to recoup the \$10 trillion lost in 2008...**5**

Percentage of married couples who discuss investment decisions related to retirement with one another...**38**

Percentage of employers who believe the ability to offer 401(k) advice to their workers is more important now than it was one year ago...**80**

Projected year in which Social Security will begin to incur cash flow deficits, as outlays exceed revenues...**2016**

Projected year in which Medicare’s Hospital Insurance Trust Fund reserves will be exhausted...**2017**

Dollars of average annual medical spending for an American family of four enrolled in a company-sponsored PPO...**16,771**

Percentage of assets in the 401(k)s of people who left their jobs in the first quarter of 2008 that remain in their former employers’ company plans...**43**

The median retirement savings balance in dollars of consumers over age 60...**42,000**

Millions of math errors made by U.S. taxpayers annually when filing taxes...**7**

Percentage of grandparents who prefer to give small financial gifts to their adult children and grandchildren throughout their lifetime rather than leaving a larger legacy sum at death...**78**

Percentage of parents who agree that sending their kids to college is an essential part of the American dream...**90**

Percentage of parents who agree that college will be unattainable for most families if tuition costs continue to rise...**60**

Number of states that mandate financial literacy education for high school students...**28**

Percentage of high net worth households that own businesses...**33**

Percentage of Americans who have turned to the Internet for advice on their personal finances during the recession...**69**

*If you would like to discuss any of the topics contained in this issue of “**FINANCIAL FOCUS**,” contact Pegasus Asset Management, Inc. at 845-369-9422, or via e-mail: Rodd Berro: rberro@pegasusassetmgt.com John M. Sebastiano: jms@pegasusassetmgt.com*

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