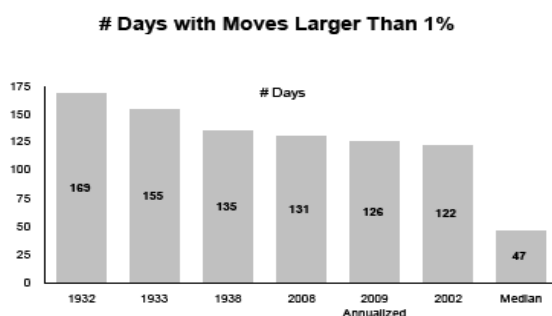


First Quarter 2009 Market Commentary and Outlook

Our last quarterly letter started by asking several difficult questions. Are we in a deflationary spiral? Has the market discounted all the bad news? With corporate bond spreads at levels not seen since the Great Depression, is this a sign of coming defaults? While we are another quarter further into the current global financial crisis (with the average diversified U.S. fund down 9.1% according to Lipper Inc.) we still do not have definitive answers to many of these historic questions. Hence, uncertainty and volatility continue to dominate the economic, political and social landscape. One thing that we do know is that we are in a “trading market”. As you can see from the chart below, we have only seen this kind of volatility once before. Many investors find in times like these, they experience emotional flip-flops on a weekly, daily, and, in some cases, hourly basis. These emotional swings can be costly,

Most Volatile Years Since 1929



Worst/Best Days Since 1929

Year	Period	Return
6 Worst Days		
10/19/87	1987 Crash	(20.4)
10/29/29	Great Depression	(16.1)
05/14/40	World War II	(10.3)
10/15/08	Current Crisis	(9.0)
07/20/33	Great Depression	(8.9)
09/29/08	Current Crisis	(8.8)
6 Best Days		
10/30/29	Great Depression	12.5
09/21/32	Great Depression	11.8
10/13/08	Current Crisis	11.6
10/28/08	Current Crisis	10.8
04/20/33	Great Depression	9.5
10/21/87	1987 Crash	9.1

From a realized volatility perspective, 2008 was the worst year since the Great Depression. 2009 has continued this trend. Two of the best and worst days of the past 100 years have occurred in the prior quarter.

Source: Standard & Poor's Corporation; FactSet

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and it is critical not to allow market momentum and the resulting emotional swings to drive investment decisions. We utilize a combination of long term normalized valuation metrics combined with short term tactical technical trading tools to avoid such mistakes. As a result, you may see us take actions which at times may seem counter to the current positive or negative momentum in the market. This is what we mean when we say that we will be opportunistic, and it may include buying and selling. Unfortunately, the equity markets in 2009 will not be about the long term, it will be about “zigging” when the market is “zagging” and vice-versa. However, with all this talk of short term orientation, there is one very productive long term decision that you can make today. Following the dramatic market decline of the past several months, this is an ideal time to review your long term risk and return objectives. Times of pain can be most productive if they force a thoughtful review of one’s long term goals that result in a course of action. In many cases, our clients are conservatively positioned with

significant holdings in cash, short term bonds and CD's that were acquired as we transitioned out of many of our equity positions during the latter half of 2008. The tough decision for us and our clients is determining how much of this safety position do we want to re-allocate back into equities. Depending upon your age, personal financial situation, risk tolerance and other factors, the answer will differ. In these unprecedented times, Beaumont has continued to position portfolios conservatively with principal protection as the key driver of our asset allocation.

There is No Quick Fix

We still feel that the unprecedented actions taken by the Federal Reserve, U.S. Treasury and the Obama administration are constructive in the short term to prevent the current financial crisis from deteriorating into an economic malaise like the Great Depression. That said we find ourselves stuck in an ongoing recession that will represent a serious challenge for the U.S. economy and markets. In addition, our continued concern regarding the potential weakness of the dollar and the resulting inflation that it will bring has become more of a mainstream thought. Massive fiscal deficits (now approaching \$1.5 trillion or 12% of GDP) will result from the government's attempt to blunt the current financial crisis. In addition, the Treasury will be facing a dramatic funding schedule, which will last for years. The government's involvement, while critical to creating a bottom near term, has significant risk in the long term. Additionally, recent radical reaction to AIG bonuses, with politicians grandstanding for populous votes, does nothing to support the required confidence of investors regarding the recovery of the U.S. "free market".

Drawn by a booming housing market, low rates and toxic mortgage products, the middle class borrowed to keep up with the growing income share of the wealthy.

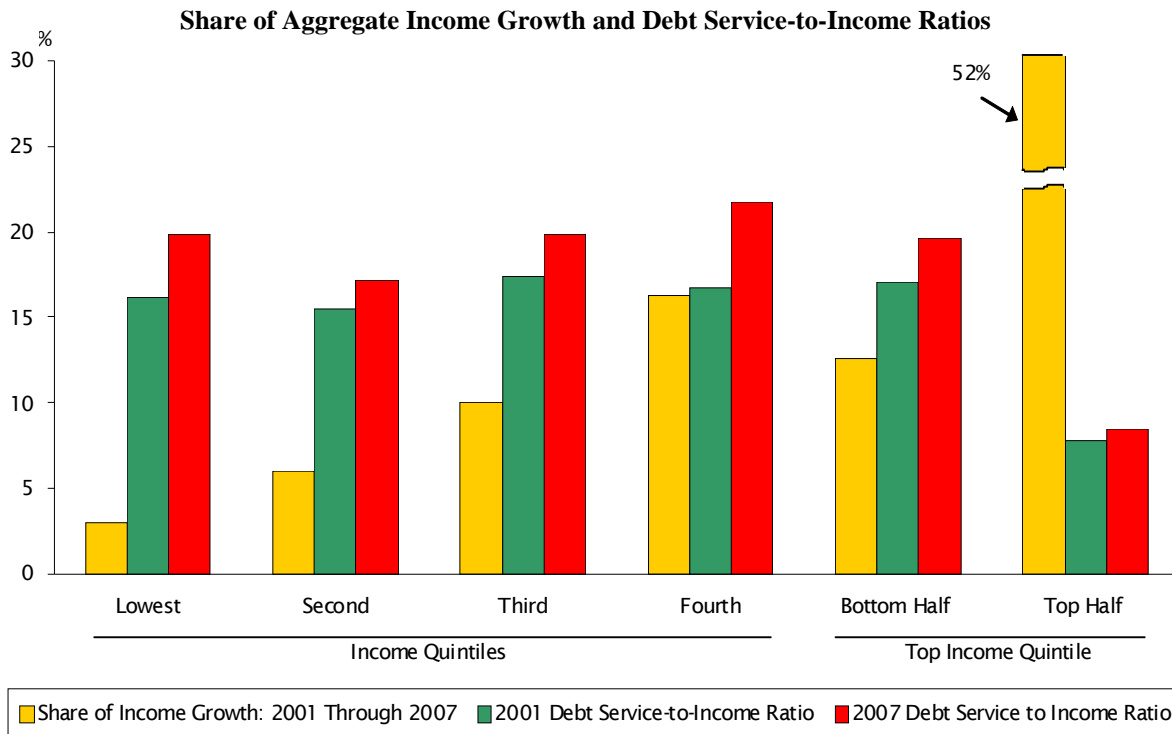


Chart Source: Empirical Research

Unfortunately, many buyers acted at the peak of the real estate cycle and are now significantly underwater. It's no surprise that the low end and the most speculative markets have seen the biggest price declines. (See next page)

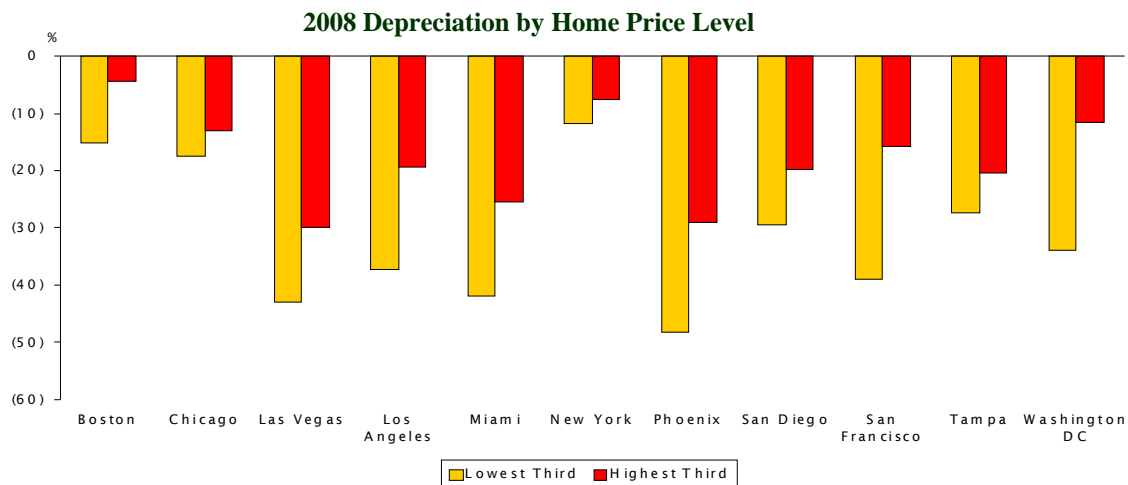


Chart Source: Empirical Research

Bottom line is that the global housing market, and hence the consumer, need to stabilize before any economic rally can gain traction.

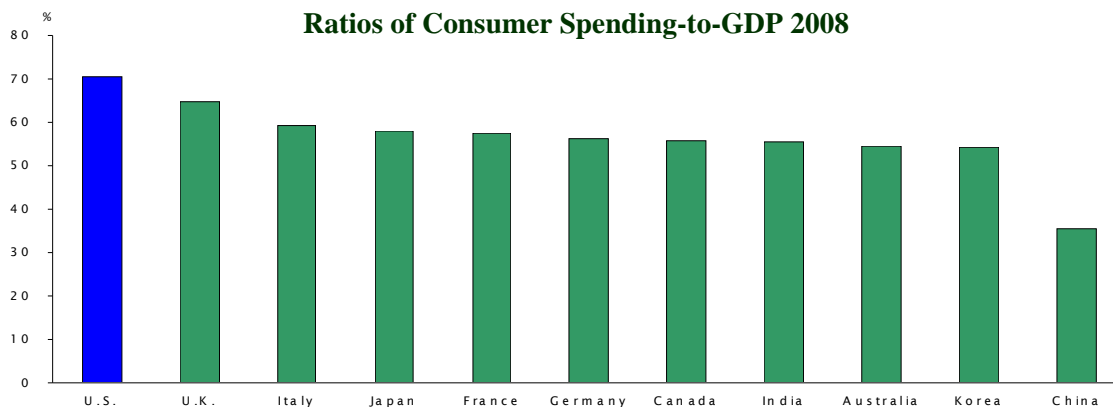


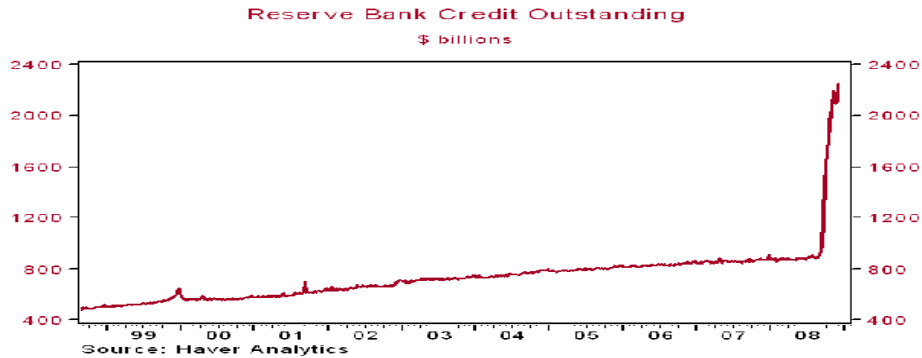
Chart Source: Empirical Research

Looking at the chart above, it is no surprise that the U.S. government has targeted the consumer and housing sectors and those companies with the greatest exposure to consumer credit/debt, namely the banks. As we have discussed in the past, banks are essentially the transmission system for the economy. Currently, they are “seized up” due to bad consumer assets and, as a result, the economy is stalled. The good news is that we have a Fed Chairman and Treasury Secretary who are students of the Great Depression; they will not make the same mistakes made in the 1930’s. The bad news is, in our attempt to deal with the current crisis, we inevitably are making new mistakes. Unfortunately due to the lag effects, we will not know what these mistakes are for quarters and possibly years. Identifying the effects of these errors early and navigating you away from their negative effects will be our biggest challenge as your wealth manager. Going forward, this also presents an opportunity for us in what will continue to be a volatile and complex business environment.

2009 is not 1929...Each Financial Crisis is Different

While many market prognosticators have been openly using the “D” word and have made several analogies to the “Great Depression”, this is not 1929. Few realize that after the market crash in October 1929, the decline was largely undone by April of 1930 as the market rallied 48%. This

brought the market back to within 20% of its original peak. Unfortunately, it was during the 1930-33 economic ripples that followed the market sell-off that the Federal Reserve and Treasury did very little to prevent banks from going under. The Federal Reserve credit outstanding (only \$1.5 billion at the time) actually declined to under \$1 billion by the Fall of 1930 at the time of the first bank crisis. The outstanding credit stayed at this lower level through the second banking crisis in the Spring of 1931 and only finally started to rise mid way through 1931. The end result of this “hands off” approach did significantly contribute to the “Great Depression”, a period characterized by 20-25% unemployment, a real GDP decline of one third, 8,000 bank failures, and eventually a 90% loss in value for stocks. If anything, we can see from the below chart that today’s Federal Reserve is moving rapidly in the opposite direction.



BFP Current Asset Allocation and Positioning

Capital preservation continues to be Beaumont Financial Partners’ highest priority. As in the 4th quarter, many client accounts continue to maintain large cash balances. During the 4th quarter, we opportunistically transferred a portion of those cash balances into investment grade, short duration corporate bonds and municipal bonds in many accounts. While corporate bond opportunities were available in the 4th quarter, yields have declined during the 1st quarter of 2009 as credit markets improved and our ability to add to high quality bond positions has become more difficult. We will continue to be opportunistic in this asset class and feel that we will be adding again at better yields due to further distressed selling or a reacceleration of the economy which will drive rates back up. Despite our current low allocation to equities, we are constantly assessing opportunities across all market capitalizations for names that could be attractive additions to our portfolios. Days away from the 1st quarter reporting period, analyst’s expectations are for a 37% decline in year over year earnings. All 10 industry groups are expected to show a year over year decline, which has not happened any time in the past 10 years according to Thomson Financial. While the market has obviously discounted very low expectations for 1st quarter results, the direction of the market will be driven by what company managements say about the outlook for the 2nd half of the year. At this point we feel there is very little to gain by companies (many who are announcing significant lay-offs) to be overly optimistic. As a result, we feel that we will be provided with better entry points in select names that we are closely watching. For example, we are closely watching companies (of various market capitalizations) in the technology, global infrastructure, energy efficiency and commodities sectors. All four of these sectors should be positioned to benefit from the dramatic global government stimulus spending. We will carefully evaluate the comments made by company managements during the 1st quarter earnings conference calls to assess the opportunity/risk in the equity space.

Secular Themes Still in Place

Non-Dollar Exposure

The six year, roughly 40% decline in the dollar bottomed at the start of the current financial crisis (the March 14, 2008 Bear Stearns collapse). Since then, repatriation and the relative safe haven status of the dollar have driven the currency up 24% from its lows. Recently, the dollar had given back 6% of that gain due to the recent announcement that the Federal Reserve is “printing money”. Many have asked what does this mean “the Fed is printing money”. The following excerpt is from a recent Wall Street Journal article entitled “Fed Doesn’t Need a Press to Print It’s New Money” and helps explain this Fed strategy, “*Wouldn’t it be nice if you could just print money? The U.S. Federal Reserve can. It has pumped roughly \$800 billion of new money into the financial system over the past seven months, and last week said another trillion dollars or more could be created in months ahead. But new money doesn’t roll off a printing press and get loaded in armored trucks. The Fed purchases securities or other assets from securities dealers in exchange for electronic credits that amount to cash and are deposited in banks*”. It is hard to believe, but yes, it is just that easy as long as the world continues to accept the “full faith and credit” of the U.S. dollar. As we have noted before, the U.S. is in this enviable position, unlike other countries (Brazil, Russia), that have fallen on difficult times historically. The U.S. continues to be able to issue debt denominated in its own currency, a critical tool that allows us to continue to issue and buy our own debt if others will not. In addition, this ability gives us the ultimate weapon in the global financial tug-of-war. This is because, by printing, we can inflate our way out of our growing mountain of debt. However, for the first time in a very long time, we have actually had someone looking over our shoulder. That someone happens to be a \$1 trillion holder of our debt/currency. Comments (see below) by the head of China’s Central Bank are an attempt to block the U.S. Federal Reserve’s ability to pull this inflationary back door maneuver. The Chinese know that the Fed’s moves will essentially depreciate the value of the assets that they already hold. As a result, heading into the April 2nd G20 summit in London, China recommended replacing the U.S. dollar as the global reserve currency with a truly international reserve currency. Essentially China is suggesting a modern day version of the historic gold backing for fiat currencies, which prevented countries from printing there way out of trouble (you cannot print gold). While this proposal was proclaimed dead-on-arrival by several nations, the U.S. will need to address these concerns with lower deficits and hence lower supply of U.S. debt and dollars relative to the size of our economy. ***“The desirable goal of reforming the international monetary system, therefore, is to create an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run.” — Zhou Xiaochuan, head of the People’s Bank of China.***

Hard Assets

Over the coming months, we will look for opportunities to move financial assets into real assets to avoid the negative consequences of the potential inflationary environment. In addition, the industrializing nations of Asia will come out of this global slow down stronger due to their underleveraged balance sheets. As their economies transition from an export driven (exporting to the U.S. consumer) model to one that is more driven by domestic consumption, basic commodity demand should increase. Since the beginning of the year, China has announced over \$50 billion in long term supply contracts for commodities (oil/coal/copper/iron ore) in countries such as Brazil, Russia and Australia. They have also forged strategic partnerships (i.e. Chinalco’s 18% in mining titan Rio Tinto). China has taken advantage of others economic duress to negotiate contracts that, up until this point, had proven politically unacceptable. They have accomplished two goals with these negotiations; first they have locked in future supply and second, they have liquidated dollar holdings. At these levels, dollars are literally burning a hole in their pocket as they can see the downward direction of their own demand for dollar denominated assets. As investors, we should be thinking the same way - spend those currently high valued dollars on long term real assets that will appreciate due to global demand and inflation.

In risk appropriate accounts, we continue to maintain approximately 10-15% exposure to a combination of gold equities and ETFs, which own the physical metal. Near-term, gold's 11% outperformance in the 1st quarter was driven by its safety characteristics. With continued speculation and rumor of Europe and U.S. bank nationalization, we witnessed a short term burst above \$1,000 an ounce. Long term, we see gold's inflationary hedge characteristic returning to drive performance.

Summary

Beaumont Financial Partners delivered solid relative performance (as a whole) in the first quarter of 2009. Our large allocation to cash and short duration bonds allowed us to better weather the almost 25% mid-quarter downdraft in the US equity market, which dropped the S&P 500 index to a low of 666 on March 6th. As noted, we continue to see the risk level of the market at historic highs. The challenge for 2009 will be to remember that while the market is a discounting mechanism, this is still a "trading market" at present. We must avoid becoming caught up in the dramatic emotional swings from fear to greed and back again. Near to longer term, we will continue to assess the economic ripple effects after the initial financial crisis and, more importantly, the effectiveness of government policies now being implemented. The decisions made back in the 1930's were made by leaders, who at the time, thought that they were doing the right thing. Obviously, that is the case again today. As a result, we will watch four key indicators for signs that things are going in the wrong direction: 1) the price of gold, 2) the value of the U.S. dollar, 3) interest rates, and 4) any increased level of protectionism globally. While we know that significant challenges lie ahead, we at Beaumont look forward to guiding you through another year, and, as always, we thank you for your trust and confidence. Please contact your Relationship Manager if you need to review your long term risk and return objectives.

If you have any questions or comments please contact us at 781-237-7170 or e-mail me at mstack@bfpartners.com

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