

Hi Everyone,

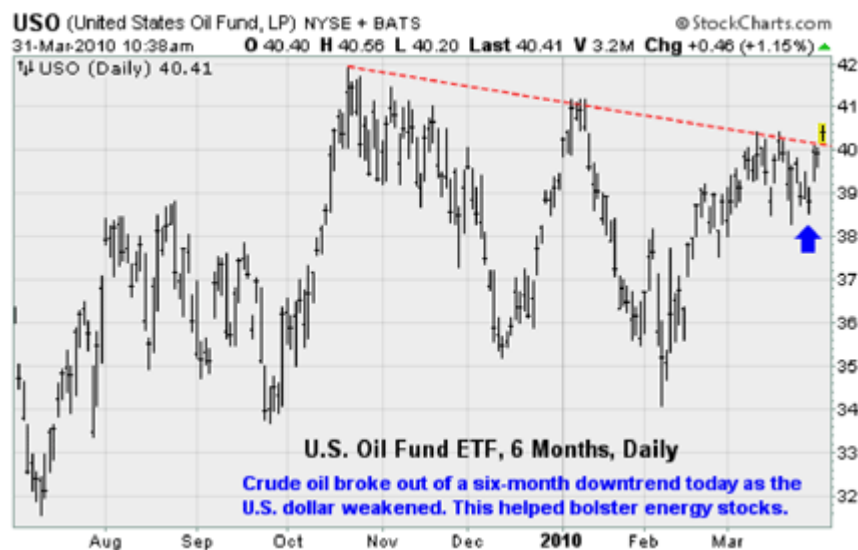
First, Shari, Brian and I would like to wish you all a very Happy Easter. I hope everyone gets to spend some special time with family and friends. If you are traveling, I hope you have safe roads to your destination and back.

Stocks moved lower in early trading yesterday after investors were shaken by a weaker-than-expected ADP employment report. It stated that private industry payrolls dropped by another 23,000 in March; analysts expected at least a 50,000 advance.

The ADP report offers a preview of the benchmark employment situation report compiled by the Bureau of Labor Statistics, which also includes federal, state and municipal payrolls. With March widely expected to mark the first month of positive payroll growth since the recession began, the ADP numbers were as comforting as an early morning splash of pepper-spiked ice water.

The good news is that the ADP numbers don't properly account for the swing factor from weather (which weighed on February's job number but is expected to benefit those in March) as well as government hiring for the positions at the Census, Internal Revenue Service and state highway departments. So the early morning selling didn't reach a fever pitch and buyers came in to buy the decline for awhile -- probably because the official payroll numbers to be released on Friday are expected to be a blowout.

Analysts at TrimTabs estimate that the economy added a whopping 280,000 jobs in March -- which would be the biggest increase in two years and well ahead of the consensus estimate of +200,000. Why? The team based its optimistic outlook on daily income tax deposits to the U.S. Treasury from salaried employees, which are public information if you know where to look. Based on this, they calculate that the government hired between 150,000 and 200,000 workers while the private sector added between 80,000 and 150,000 jobs.



Also, investors were focused on energy stocks, which moved higher thanks to weakness in the U.S. dollar and strength in crude oil futures.

On the flip side, shares of companies that led the advance out of the February low such as retailers and homebuilders are losing some momentum. Overall, the market appears to have been working off its overbought condition by stalling into a holding pattern for the last two weeks. In fact, the Russell 2000 small-cap index ([IWM](#)) is essentially unchanged from March 14 as well as our IVV S&P 500 index.

During this time, the bears have had every opportunity to push stocks lower in a dramatic way and have either been laying a trap of complacency or don't have the firepower. All the while, the bulls have been restocking and appear to be preparing for another push higher. Each day that the market consolidates, it only adds to the

potential energy that will be unleashed when the short-term trading range is broken. And right now, it looks like the next upswing will be led by commodities, energy and mining stocks, and foreign equities. So we'll continue to focus our attention in these areas.

On a final note, there appears to be some early stage rumblings from within the credit markets. Nothing major yet, as new corporate funding continues unabated, but a few data points are worth mentioning.

In Europe, Greece unsuccessfully tried to float a surprise 12-year note with a rather large coupon. This shows that investor demand for the debt of troubled high-debt sovereigns remains weak, since otherwise high-yield bonds of other stripes have been over-subscribed.



Also, short-term interest rates that banks charge to each other, specifically the three-month LIBOR rate, has increased to levels that have not been seen since last September. This comes as bankers start to price in the end of the Fed's near-0% interest rate policy. Easy money is the raw fuel for stock prices, so a tightening in LIBOR could eventually reduce the pace at which stock prices appreciate as well as differentiate the performance of different asset classes and sector groups.

And finally, the cost of protection against bond defaults is on the rise again as the price of credit default swaps (CDS) moved higher for the first time since January, ahead of the correction into the February low. The rise in CDSs may be an old tactic of bearish credit investors trying to cause trouble. But with the credit market now stronger than it was in January, the potential for a big decline is limited.

The stock market is closed tomorrow, so enjoy your weekend and we'll talk to you again next week.

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