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Subject: **01/29/2010 - Update**
Date: January 29, 2010 4:50:23 PM EST
To: update@mckeeinvestments.com

Dear Clients,

This week was peppered with good economic news. Here are some highlights:

We got confirmation that China's government increased reserve requirements for their banks. Smart business for China and a smart move by the Chinese government. While China has its share of "black eyes" I have to applaud their approach to handling money. By tightening up on their banks, China is keeping a lid on inflation and making an effort to keep their economy from overheating. China's economy normally grows at an average of approximately 9% per year and a great deal of the "economic stimulus" floating around the world has washed up on China's shores. China is doing what we should have done in 2005; demonstrating prudence. Well done China!

The Fed voted to keep interest rates the same, essentially at 0% for the Fed Funds rate. The Fed's actions keep the "peddle to the metal" with respect to trying to get the US economy moving. One significant change with this decision was that it was not unanimous. Tom Hoenig, the President of The Federal Reserve Bank of Kansas City and one of the voting members of the Fed, voted against keeping rates low because he believes that the economy has improved sufficiently to warrant an increase in the Fed Funds rate. I would love to see rates move up sooner than later. The basic principle here is that rates are low to encourage new borrowing and expansion. I would argue that we don't need new expansion via cheap borrowing. However, cheap borrowing does "heat up" the economy and if that is the goal, then a zero percent Fed Funds rate will do the trick.

Apple reported another record quarter with all time highs in quarterly revenue and profit at $15.6 Billion and $3.67 Billion respectively. Apple generated $5.8 Billion in free cash flow (think of it as additional money in the bank) during the quarter. Apple announced the release of yet another new product, called the iPad, which may revolutionize the textbook industry among others. You can check it out at www.apple.com. This was my favorite news of the week. Apple has reported record sales and earnings for every quarter throughout this current recession. Notwithstanding, the stock price has gone from $200 before the meltdown, to $78 while in the eye of the storm, and back to over $217 recently. Certainly, this is evidence that the market works on emotions and not always on the facts.

The Commerce Department reported that the US economy expanded at a 5.7% rate in the 4th quarter of 2009. In my opinion, this is just some of the "flash fire" that ensues when our government pours cash into the economy. However, the vast majority of analysts were quite happy about the expansion in the 4th quarter and touted it as a very positive sign and something that was sustainable.

In light of all that, the market's bad mood persisted with the S&P 500 finishing the month down 3.7% and the Nasdaq finishing the month down 5.4%. Apple stock ended at $192, down almost 10% for the month. We have been due for a bit of a retraction and I don't really have high expectations for the US markets going forward anyways. Apple stock is just about as volatile as they come, but with the strength of the company's product line, marketing, and balance sheet, I am not concerned with the recent dip. In fact, I wouldn't mind seeing Apple stock back down near the $100 mark for a little while so we could buy some again.

The Asian/Pacific economies are where I really believe we will see the true, sustainable growth in the intermediate future. More on that later.

For now, have a great weekend.

Best Regards,

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