Investor Insights & Outlook

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CONCLUSION OF FINANCIAL CRISIS INQUIRY COMMISSION

This bi-partisan Commission was tasked with examining the financial and economic crisis that continues to grip our country and to explain its causes to you and me. The central question is this:

How did it come to pass that in 2008 our nation was forced to choose between two stark and painful alternatives -- either risk the total collapse of our financial system and the economy or inject trillions of taxpayer dollars into the financial system and an array of companies, as millions of American still lost their jobs, their savings and their homes?

The complete report contains much detail as it endeavors to expose facts, identify responsibility, unravel myths and to help us understand how the crisis could have been avoided. The Commission's specific findings include:

* The crisis was avoidable. * Widespread failures in financial regulation and supervision proved devastating. * Excessive borrowing, risky investments and lack of transparency put the financial system on a collision course with crisis. * An erosion of standards of responsibility and ethics exacerbated the financial crisis.

What remains most troubling is that virtually nothing has changed. The culprits who precipitated the crisis are repeating the same actions (or inactions), setting us up for an even bigger disaster.

It does not have to be this way. You and I need to speak up and demand meaningful financial reform. For ideas on how you can make a difference (and for a copy of the Commission's Summary Introduction) call or email our office.

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Advisor Corner

Thank you for the opportunity to serve as your advisor.

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Investing With(out) Frontiers

ASK JIM

- How do the recent events in Egypt and Tunisia impact the Frontier Markets?

The United States is generally considered a developed country with a strong economy (lately, not so strong), but investments in other countries and regions have the potential to provide better returns than U.S. investments.

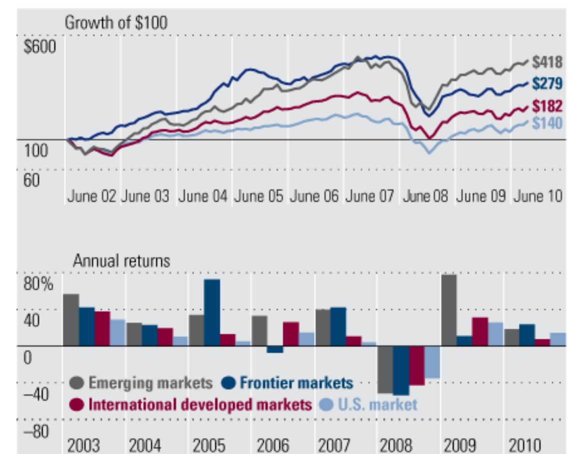
In the commonly used classification system, countries generally fall into two categories, developed and developing (or emerging). Developed countries have stable economic and political systems, strong levels of industrialization, and healthy economic indicators (such as gross domestic product and income per capita). Examples of developed countries include the U.S. and Canada in North America, the U.K., France and Germany in Europe, Japan in Asia, and Australia. Developing countries have weaker economies and lower economic indicators, but they are making significant progress toward becoming like the stronger, developed markets. Examples include Poland and Hungary in Europe, Mexico and Chile in Latin America, and China and India in Asia. But there remain countries that don't fit into either category, making the need for a third category apparent. These economic leftovers are called "frontier markets."

In 1992, the International Finance Corporation first established the term "frontier markets" to designate countries undergoing multiple economic changes with the goal of attaining a modern, capitalist market economy while still facing significant problems like unemployment and poverty. From an investor's perspective, these markets are obviously very risky and illiquid because of their general political and economic instability. On the positive side, these countries also have the potential to grow quickly and are usually in need of foreign funds in multiple areas, such as infrastructure, health care, and residential or commercial real estate. Opportunities for investment are abundant. Frontier markets may contribute to increasing returns, and their elevated risk levels can possibly be reduced if the investments are included as part of a diversified portfolio.

As of December 2010, MSCI Barra identified 26 countries as frontier markets. They include many countries in Eastern Europe and in what used to be the Soviet bloc, like Romania, Bulgaria, Kazakhstan, Lithuania, and the Ukraine. In Africa, frontier countries include Kenya, Mauritius, Nigeria, and Tunisia, while in Asia and the Middle East some examples are Jordan, Kuwait, Lebanon, Pakistan, Sri Lanka, the United Arab Emirates, and Vietnam.

The image illustrates the growth of $100 invested in frontier markets, emerging markets, non-U.S. developed markets, and the U.S. market from June 2002 through December 2010. Emerging markets provided the highest return and the largest ending value during this time period, followed by frontier markets. International developed markets provided a decent return, but they lagged behind their less-developed counterparts. Out of all four investments, the U.S. market performed the worst during the time period analyzed.

Frontier-Market Performance



The short time frame is dictated by data availability.

Past performance is no guarantee of future results. All values are in USD. Returns and principal invested in stocks are not guaranteed. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. Frontier-market investments are riskier than developed- and emerging-market investments.

Source: U.S. stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. International developed stocks are represented by Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index. Emerging-market stocks are represented by the Morgan Stanley Capital International Emerging Markets Index, and frontier-market stocks by the Morgan Stanley Capital International Frontier Markets Index.

Major Stock Market Indexes

ASK JIM

- What role do indexes play in your financial plan?

There are a number of stock market indexes that are frequently mentioned on television and cited in financial newspapers and magazines. They measure various slices of the stock market and can be used as performance benchmarks for both investment vehicles (such as mutual funds) and one's own portfolio returns. Here are three of the most popular and referenced indexes.

Dow Jones Industrial Average: The Dow Jones Industrial Average was first unveiled by Charles H. Dow on May 26, 1896, and consisted of 12 stocks. In 1916, the industrial average expanded to 20 stocks and in 1928 was subsequently bumped to 30, where it currently stands. The index constituents are 30 of the world's largest, most influential and well-known companies. Whenever you hear someone referring to what "the market" did in any given day, they are most likely referring to the Dow.

Changes to the index are rare and usually take place, according to Dow Jones Indexes (www.djaverages.com), "when a current component is going through a major change, such as a shift in its main line of business, acquisition by another company, or bankruptcy. There is no review schedule."

Standard & Poor's 500 Stock Index: When you hear that a portfolio has "beaten the market" it is most likely being compared with the S&P 500, which was first published in 1957. The index is composed of 500 leading companies in leading industries of the U.S. economy, focusing on the large-cap segment of the market but also serving as a proxy for the total market—covering approximately 75% of the U.S. equities market.

The S&P Index Committee follows a set of published guidelines for maintaining the index (complete details of these guidelines are available at www.indices.standardandpoors.com). Some of the criteria for addition include a market capitalization (share price multiplied by shares outstanding) in excess of $3 billion, adequate liquidity (how easy it is to buy and sell shares) and reasonable price and financial viability. Those that substantially violate the criteria are dropped.

Nasdaq Composite Index: Launched in 1971, the Nasdaq Composite Index measures all Nasdaq domestic- and international-based common type stocks listed on the Nasdaq Stock Market. The index includes nearly 3,000 securities. While it is best known for its large portion of technology stocks, it also contains stocks in other industries.

To be eligible for inclusion in this index, securities must be listed on the Nasdaq Stock Market and they need to be of a specific type. For more information, visit www.nasdaq.com.

Please keep in mind that a company can be a member of more than one of the three indexes described above. Microsoft is an example of a company that has a place in all three.

Stock Market Index Comparison

Stock Index	Dow	S&P 500	Nasdaq
Year Introduced	1896	1957	1971
Constituents	30	500	2,900*
Types of Companies	Large, well-known, influential.	Leading companies in leading industries. Focuses on large-cap segment.	Large number of technology stocks. Also stocks in other industries.
Index Modifications/ Eligibility	Companies undergoing a major change can lead to a modification.	Market cap in excess of $3 billion, adequate liquidity/ reasonable price, financial viability.	Listed on Nasdaq Stock Market and needs to be specific security type.
Examples of Current Constituents*	Walt Disney, Johnson & Johnson, Coca-Cola, McDonald's, Walmart	AT&T, Boeing, General Mills, Procter & Gamble, Google	Apple, eBay, Cisco, Dell, Yahoo!

*As of 12/02/2010

Stocks are not guaranteed and are more volatile than other asset classes. The information above is provided for illustrative and information purposes only. The indexes noted are unmanaged and can not be directly invested in. References to specific securities should not be viewed as a recommendation to buy or sell the mentioned security.

The End of the Recession

A QUESTION FOR YOU:

- Do you feel like the recession is over?

In September 2010, the National Bureau of Economic Research announced the long-awaited news: an end date for the recession that had begun in December 2007. The NBER determined the official end date as June 2009, quieting down (if not completely silencing) double-dip fears. NBER defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. Looking back at the performance of the main asset classes during the recession and in the months following the official end date, gold was the best overall performer, and long-term government bonds offered consistent positive returns. Out of the investments with the worst performances during the recession, REITs posted the most-impressive return in the 18 post-recession months.

Returns During and After the Most Recent Recession

	Recession Dec 2007 to Jun 2009*	Aftermath Jul 2009 to Dec 2010*
Gold	19.3%	50.4%
Long-term government bonds	8.4%	8.5%
Treasury bills	1.9%	0.2%
Small stocks	–33.8%	60.7%
Large stocks	–35.5%	41.1%
International stocks	–39.7%	32.2%
REITs	–48.1%	86.6%

Returns in table represent cumulative returns during time periods indicated, not geometric returns.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Holding a portfolio of securities for the long term does not ensure a profitable outcome, and investing in securities always involves risk of loss. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, liquidity risks, and differences in accounting and financial standards. REITs are subject to certain risks, such as risks associated with general and local economic conditions, interest rate fluctuation, credit risks, liquidity risks and corporate structure. Small stocks are more volatile than large stocks, are subject to significant price fluctuations, business risks, and are thinly traded. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks, REITs, and gold are not guaranteed.

Source: Gold—Wall Street Journal London P.M. closing price. Long-term government bonds—20-year U.S. government bond. Treasury bills—30-day U.S. Treasury bill. Small stocks—Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio. Large stocks—Standard & Poor's 500® Index, an unmanaged group of securities considered to be representative of the U.S. stock market. International stocks—Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index. REITs—FTSE NAREIT Equity REIT Index®.

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