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SUMMER 2012

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A Radical Thought for Radical Change

Change your thoughts, and you change your world.
—Norman Vincent Peale

On September 17, 2011, in the midst of what is now known as the global financial crisis, the world became aware of a small but vocal new voice of frustration and discontent: The Occupy Movement. Started by a Canadian activist group to peacefully protest the lack of legal repercussions for those who had a direct hand in creating the financial crisis, in less than a month Occupy protests had taken place in over 600 communities across the United States and in over 95 cities across 82 countries.

Each generation must continue to struggle and begin where the last left off. The Occupy movement represents a growing sense of discontent in America and around the world. These human beings represent a growing feeling of dissatisfaction that the community of nations is spending the people's resources on more bombs, missiles and guns and not enough on human needs. People are crying out…[but] the most important lesson I have learned in the 50 years I have spent working toward the building of a better world is that the true work of social transformation starts within.

Across That Bridge
—U.S. Congressman John Lewis

What started as a clear and understandable outcry against the crisis devolved into a mass of individuals looking outwardly for someone to blame for their individual circumstances. But real change and real power only lie in an individual, and in our choice to claim personal responsibility.

A Radical Thought for Radical Change

Every one of us faces hundreds of situations daily that are outside of our control. From the mundane like a power failure that causes your alarm not to go off or the amount of traffic on the road, to the more somber like layoffs at work, serious illness, or a global financial crisis that has wiped out life savings and retirement plans. We can't stop these things from happening. But we can certainly control how we respond to them. The Greek philosopher Epictetus said it this way, "Ask not that events should happen to you as you will, but let your will be that events should happen and you will have peace."

The happiness which brings enduring worth to life is not the superficial happiness that is dependent on circumstances. It is the happiness and contentment that fills the soul even in the midst of the most distressing circumstances and the most bitter environment. It is the kind of happiness that grins when things go wrong and smiles through the tears. The happiness for which our souls ache is one undisturbed by success or failure, one which will root deeply inside us and give inward relaxation, peace, and contentment, no matter what the surface problems may be. That kind of happiness stands in need of no outward stimulus.
—Billy Graham

So here's a radical thought. Because our lives are all about our choices—actions, reactions, attitudes, feelings, words—our lives are, therefore, a reflection of our own choices. Are you living the way you think you are meant to? Does your life reflect purposeful or passive choice? Do you wake up every day and choose your mood or do you allow someone else to make that choice for you?

ASK NOT THAT EVENTS SHOULD HAPPEN TO YOU AS YOU WILL, BUT LET YOUR WILL BE THAT EVENTS SHOULD HAPPEN AND YOU WILL HAVE PEACE.

Do you choose to see challenges as setbacks or opportunities? Do you choose to look to the future or to the past? Do you choose to actively pursue positive change or do you choose inaction? Do you choose personal responsibility, to be a victor or a victim?

Each one of our actions begins with a thought. So what are you thinking? Are you thinking positive thoughts or negative thoughts? As Tom Newberry puts forth in his book *The 4:8 Principle*, "Because no one else can think for you, this is your responsibility." So think about what you are thankful for, focus on your strengths, review your achievements, catalog the people you love and who love you. Think about your goals and how you can use your resources to achieve them.

Imagine the life you want to live and make choices daily to make it a reality. Choose to have a life lived confidently, fully and purposefully.

To start with, a successful action is only as effective as the radical imagination that precedes it.
—Rira

MARKET SENSE:

A Key to Investing During Uncertainty

Following two consecutive quarters of strong returns, the investment markets turned more volatile in the second quarter. Driven largely by continued stress in Europe and concerns over a general slowing in economic growth, a global flight to quality returned, with most risk assets losing ground and traditional safe-haven assets holding up well. At one point during the quarter, the benchmark S&P 500 Index had fallen nearly 10% before a strong June rally helped recover much of those losses.

Domestically, U.S. large cap stocks fell 2.8% and U.S. small cap stocks slid 3.5%. As we have said over the past 12 months, there continues to be a wide divergence between the performance of the U.S. equity market, which has been relatively strong and resilient, and international markets, which have been much weaker. This trend continued in the second quarter as international developed markets fell 7.1% and emerging markets slipped by 10%. Domestic equity markets have now outperformed broad international markets by nearly 20% over the past 12 months.

Commodity markets faced dual headwinds in the second quarter. Fundamentally, slower economic growth (specifically from emerging markets) reduced end demand for energy-related commodities. In addition, the flight to quality resulted in the U.S. dollar strengthening over the quarter, which negatively impacted dollar-denominated commodity prices. As a result of these headwinds, broad-based commodity markets fell nearly 13% over the three months.

Looking at the fixed income markets, bonds continued to hold up well. High-quality sovereigns (U.S. Treasuries and German Bunds) continued to benefit from the flight to quality in the quarter. Notably, as bond prices rose, the benchmark 10-year U.S. Treasury rate fell from 2.21% to 1.65%. This resulted in a strong quarter for core, investment-grade bonds, with taxable bonds returning 2.1% and municipal bonds rising 1.2%.

CURRENT RISKS & OPPORTUNITIES

While reviewing what *has happened* is critical to understanding the drivers of portfolio performance,

Market Sense

looking forward and preparing for what is *likely to happen* is even more critical. As investors, we constantly evaluate the current markets to weigh opportunities against risks. We look at a number of factors when evaluating the relative attractiveness of a potential investment: secular (long-term) trends, cyclical (shorter-term) trends, fundamentals/valuations, and technical/sentiment. Very simply, when we feel the opportunities outweigh the risk in a given investment opportunity, we allocate capital towards that investment. When the risks outweigh the opportunity, we are more defensive.

We believe that macroeconomic risks will continue to impact the investment markets and result in elevated volatility in the short run. Specifically, we are consistently monitoring three macro events: the European debt crisis, the pending U.S. fiscal cliff and emerging market economic slowdown. While these risks are likely to drive the majority of headlines, we believe there are reasons to be somewhat optimistic with an eye towards the longer term.

Among the reasons for optimism are historically attractive equity valuations, with the S&P 500 trading at 12.4 times forward earnings, 2.1 times book value and offering a 2.1% dividend yield versus a 10-year average of 14.5, 2.4 and 2% respectively. Internationally, valuations look even more attractive, with the MSCI EAFE (a key international benchmark) trading at 10.5 times forward earnings, 1.3 times book value and 3.9% dividend yield versus a historical average of 13.0, 1.7 and 3.3%. Equity valuations also look attractive relative to alternative investment options. Historically, roughly 10% of S&P 500 companies have a higher dividend rate than the 10-year U.S. Treasury yield. As of the end of this quarter, a full 58% of S&P 500 companies have a dividend rate above that of the benchmark U.S. rate. Additionally, the recent drop in commodity and energy prices should provide additional savings for consumers and marginally benefit consumer spending. According to research by Bespoke Investment Group, the current lower commodity and gas prices will save the average household $1,100 over the course of the year.

On top of the "tug of war" between macroeconomic risks and microeconomic opportunity, we are in a market environment driven increasingly by monetary policy action and political rhetoric, both of which are difficult to handicap. When investing in periods of such elevated uncertainty, flexibility and risk management are critical. Because we believe we are in a period with *more possible investment "outcomes"* than a typical period, we believe more than ever in a diversified approach and are holding investments that we expect to perform differently in different scenarios.

ECONOMIC SCENARIOS

We have outlined four scenarios below that we believe illustrate likely economic outcomes over the next 12–24 months. Within each segment, we discuss potential global economic conditions, the capital market implications, and specifically how we have positioned client portfolios to capitalize on the opportunity should the scenarios occur. While precisely handicapping the scenarios below is impossible, we have included our best estimate as to their relative likelihood and have used these weightings to help us shape our current portfolios.

SCENARIO #1: MUDDLE THROUGH
Likelihood: Most Likely (~55%)

- GLOBAL ECONOMY: We believe that the most likely path forward is a muddle through economic environment, characterized by global growth below long-term averages, with low single-digit to slightly negative real GDP growth in both the U.S. and the Eurozone, and mid- to high-single-digit economic growth in the emerging markets. Inflation would likely be modest.

- CAPITAL MARKET IMPLICATIONS: In this scenario, we would expect global markets to remain relatively range bound in a wide volatile trading range. Interest rates would also likely remain volatile with a slight bias towards higher rates. Outside of a significant credit shock, we would not expect a dramatic spike in rates or credit spreads. Given that, we would expect core bonds to produce modest returns and credit-oriented, spread-sector fixed income to perform well.

- PORTFOLIO POSITIONING:
  - GROWTH ASSETS: We have tilted the majority of our domestic and international equity exposure to **higher-quality equity strategies,** many of which focus on **dividend-paying companies.** Focusing on quality companies provides a margin of safety during volatility and provides an attractive income component via common dividends. Given that significant capital appreciation would be difficult, getting "paid to wait" is an attractive strategy in this scenario. In addition, we are currently allocating a portion of the growth assets to **long/short and other multi-strategy hedged equities**, which could capitalize on the volatility to produce strong returns.

  - FIXED INCOME: We are focusing on a number of **credit-oriented strategies** including an allocation to **floating rate notes**, which pay a floating interest spread over LIBOR and are currently generating around 5% income. Our investments in **core, investment-grade bonds** should also provide decent returns in this environment, provided the absolute level of interest rates does not rise too significantly.

SCENARIO #2: INFLATIONARY CRISIS
Likelihood: Low (~20%)

- GLOBAL ECONOMY: This environment is characterized by low economic growth and high inflation. The primary reason this scenario is plausible is due to global central bank action. The Federal Reserve in the U.S., the ECB in the Eurozone and other global central banks have been aggressively accommodative on their policy rates and the expansion of their balance sheets. Since the onset of the financial crisis in 2008, the Federal Reserve has expanded its balance sheet from roughly $800 billion to $2.5 trillion in assets. Typically, this type of monetary policy has two effects: stimulating growth and creating inflation. The aggressive action has not created runaway inflation but this amount of liquidity is unprecedented and a severe inflationary environment is a possibility.

- CAPITAL MARKET IMPLICATIONS: In an inflationary crisis, we would expect long-only equities and paper currencies to face immediate headwinds while the weakening dollar should drive up prices of real assets, including commodities, energy and gold. Higher-than-forecast inflation would drive up interest rates, erode the value of fixed interest payments and negatively impact long-term bond investors.

- PORTFOLIO POSITIONING:
  - GROWTH ASSETS: We maintain a significant allocation to **real assets** including investments focused on **global natural resources, energy and global infrastructure entities.** We also have an allocation to **gold** in many of our client portfolios to hedge against possible inflation. Should this scenario play out, we would expect our investments focused in these areas to perform well and provide some hedging to client portfolios.

  - FIXED INCOME: We have **shortened the duration of our core, high-quality fixed income** investments. Inflation will drive up interest rates and shorter maturity bonds should hold up much better than intermediate and longer-term bonds in this scenario. These bonds will also mature quicker and provide an opportunity to reinvest the proceeds at the prevailing higher interest rates. In addition, our investments in **emerging market currencies** would perform well in this environment where the U.S. dollar is weakening against other currencies.

SCENARIO #3: GROWTH SURPRISE
Likelihood: Low (~15%)

- GLOBAL ECONOMY: This environment is characterized by stronger-than-anticipated economic growth in the U.S. and Europe and a reacceleration from the emerging markets. The reason we see this as a possibility is that global growth expectations have fallen to a relatively low level so the bar to "surprise" is pretty low. While it is always difficult to predict the "catalyst" for upside surprises, we believe that there are sufficient existing possibilities which warrant attention.

- CAPITAL MARKET IMPLICATIONS: If this scenario materializes, the unexpected growth would give central banks the room needed to begin to reverse some of the stimulus, shrink their balance sheets and raise rates. Higher global growth would also boost the demand for commodities and energy and most likely result in higher natural resource and energy prices. Inflation is likely to move higher in this scenario, pushing up prevailing interest rates and the economic strength is likely to result in tightening credit spreads.

- PORTFOLIO POSITIONING:
  - GROWTH ASSETS: Our investments in most global **growth-oriented, long-only equity** strategies will perform well here as companies are likely to grow earnings and there is a higher likelihood that market multiples expand also driving up equity values. Our investment in real assets, specifically in **global natural resources and energy-related equities**, should also perform well in this environment.

  - FIXED INCOME: Our investments in **shorter-duration fixed income strategies**, including **shorter-term, investment grade and floating rate notes** (shorter-term, non-investment grade) will perform well as interest rates rise.

SCENARIO #4: DEFLATIONARY CRISIS
Likelihood: Low (~10%)

- GLOBAL ECONOMY: This environment is characterized by a collapse in economic growth and falling overall price levels (deflation). There have only been a few high-profile cases of deflationary driven crisis; the Great Depression in the U.S. and Japan over the past 15 years are two of the most notable. Deflationary crises are dangerous because they are self-reinforcing and very difficult to reverse. For this reason, there is an extremely strong willingness on behalf of global central bankers to err on the side of providing too much stimulus to avoid the possibility of letting the economies slip into a deflationary spiral.

- CAPITAL MARKET IMPLICATIONS: A deflationary driven crisis is an extremely high-impact event. This scenario is the most concerning for investors, as it would likely result in extremely low returns on most investments with very few "safe-haven" assets. Falling inflation expectations would drive prevailing interest rates lower. Long-only equity and real asset strategies would struggle as it would be a difficult period to grow revenues and earnings and market multiples would be unlikely to expand.

- PORTFOLIO POSITIONING:
  - GROWTH ASSETS: While there are limited growth-oriented assets that would perform well in a deflationary environment, **multi-strategy hedged equities** should protect capital and perform relatively well. **Dividend-paying equities** would also perform relatively well versus other types of long-only investments as the dividend cash flow would be valuable in an environment with more limited capital appreciation opportunities.

  - FIXED INCOME: In this scenario of falling interest rates, **high-quality, longer-maturity bonds** would perform well. We have talked a lot about the elevated risks in core fixed income and how the current low-interest-rate environment offers limited longer-term opportunity for bond investors. However, it is for these reasons (providing stable income and a hedge against deflation) that we are hesitant to further reduce our exposure to these bonds despite the fact we believe they present limited, longer-term return opportunity.

	2ND QTR.	52 WKS.
S&P 500	-2.75	5.45
Dow Jones Industrials	-1.85	6.63
Russell 2000 (U.S. Small Company)	-3.47	-2.08
MSCI EAFE (International)	-7.13	-13.83
Dow Jones - UBS Commodity Index	-4.55	-14.32
BarCap U.S. Aggregate (Taxable Bond)	2.06	7.47
BarCap 5 Year Muni (Tax-Free Bonds)	1.21	5.32

CONCLUSION

When putting all of the scenario analysis together, on average, we continue to modestly overweight growth assets relative to fixed income with a heavy focus on large cap, quality and dividend-paying companies. We maintain a significant allocation to real assets for inflationary hedging and growth. We also maintain an allocation to hedged equities and other alternative growth strategies to provide diversification and additional downside protection.

On the fixed income side, we remain comfortable trading interest rate risk for credit risk and maintain our positioning of shorter-maturity, credit-oriented fixed income strategies over longer-term bonds.

We appreciate the confidence you place in us. If you have any questions or would like to discuss this information in more detail, please let us know.

SignatureFD Brief

Laura Hubbell participated as a panelist in a session entitled *Best Practices—How to Scale Investment Operations* at the 6th Annual iRebal Users Conference in Chicago this June.

Liz Goodrow was featured in a white paper written by technology company By All Accounts, which focused on the benefits of data aggregation and comprehensive reporting for clients.

Page Harty was selected to join Fidelity Institutional's Women and Wealth Steering Committee, whose program mission is to help women investors and advisors thrive.

Page Harty became a founding member of the Ribbons of Hope foundation. The goal of the foundation is to make a positive impact on women's lives through the financial support of non-profit organizations that promote education, health, economic, independence, social well-being and human rights.

SignatureFD participated in the 2nd Annual Atlanta Corporate Challenge during the month of May. This Olympic-style sports festival brings together businesses and organizations across Atlanta to compete in 22 events ranging from Darts and Horseshoes to Soccer and Football. We wanted to spend time together as a team, united in purpose to compete with excellence and pride, but never forgetting to have fun. Not only did the Firm take 3rd place overall in the Olympic style events competition, but was granted the Spirit Award for demonstration of teamwork, sportsmanship and volunteer participation.

SignatureFD was named to the inaugural NABCAP 2011 National Premier Advisors List. NABCAP is a non-profit organization dedicated to serving the needs of the investing public by providing objective and transparent insight on the financial services industry.

SignatureFD was again named as one of the leading independent advisory firms in the country by *Financial Advisor Magazine* based on assets under management, growth rates and the average size of our client relationships. Thank you very much to our loyal and supportive clients for our continued success.

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SPOTLIGHT

Connie Kelly

Client Care Associate

As a Client Care Associate, Connie works with the Advisors to implement various planning and investment strategies for clients. Her role is to ensure that each client receives exceptional service and that all of their account-level needs are being met.

Connie is a graduate of Seminole State College and recently joined SignatureFD after marrying a long-time Atlanta area resident and relocating from Orlando, Florida. Connie began her career in the financial services industry in 2002 as a Client Services Coordinator for a wealth management firm in Maitland, Florida. In 2006, she joined Charles Schwab Advisor Services and served as a Relationship Specialist for financial advisors in the New York metro region. Most recently, Connie served as the Business Manager for a start-up wealth management firm in Orlando.

When I'm not working: I enjoy reading, cooking, walking, singing and spending time with family.

Little-known facts: I am a green belt in taekwondo

Favorite movie: Anything based on a Jane Austen novel

Pet: Barkley, a rottweiler/collie mix

Favorite book: *Outliers* by Malcolm Gladwell

First car: Chevy Caprice Landau

First job: Neighborhood babysitting, dog walking and plant care

Next big trip I'd like to take: Scotland