

The New Resolution

Two roads diverged in a yellow wood,
And sorry I could not travel both

...

Two roads diverged in a wood, and I—
I took the one less traveled by,
And that has made all the difference.

Excerpt from *The Road Not Taken*

Robert Frost

The start of a new year invariably brings about the topic of New Year's Resolutions. Usually, it is with a bit of a sardonic tone, because conventional wisdom tells us that these resolutions, most often aimed at bettering ourselves, are made to be broken. In fact, it is now so ingrained in us that you can find countless scientific studies aimed at explaining

the phenomenon. Just one example is the December 2009 *Wall Street Journal* article titled "Blame It on the Brain," that seeks to make us feel better about not achieving resolutions by citing neuroscience research to explain that willpower is "an extremely limited mental resource."

However, if we were to consider that, when the term "conventional wisdom" was coined, it was most often used pejoratively, we might think that this sounds just a bit too convenient. A bit too comfortable. A bit too easy.

It brings to mind a question. Have we—somewhere along our quest to be better, do better, and have better for ourselves, our children, and our society—begun to



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erroneously believe that “better” means “easier”? If clichés tell us anything, they tell us underlying, and grossly overused, cultural truisms. And the ever-present phrase, “the easier the better,” would lead us to answer this question in the affirmative.

But, what if we found we could *better* achieve better by doing some hard things? Immediately you have to ask, what does “better” really mean? And what, then, is “hard”? The word “better” is a comparative, holding one thing to be of a higher type or quality than another. The dictionary defines *hard* as “solid, firm, and resistant to pressure; not easily broken, bent, or pierced.” When you put the two together, it sounds a lot like setting goals, defining beliefs, and acting accordingly. It sounds like purpose, responsibility, and resolve.

In the book *Everyday Greatness*, Joe Paterno tells of the defining moment in his life when he had to decide what *better* and *hard* meant to him. In December 1972, after seven years as head coach at Penn State, he was approached by Bill Sullivan, the principal owner of the New England Patriots, and offered a position. He told Sullivan he wasn’t really interested in the pros. But then Sullivan presented him with a package. \$1.3 million, plus part ownership, and a \$100,000 signing bonus. He accepted.

But that night, he couldn’t shake the despair and the realization that the only reason he had said yes was the money. As he states:

From the moment of that nighttime revelation, I knew what college football means to me—and what pro football never could mean. I love winning games as much as any coach does, but I know there’s something that counts more than victory or defeat. I get to watch my players grow—in their personal discipline, in their educational development, and as human

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beings. That is a deep, lasting reward that I could never get in pro ball.

He called Sullivan back, and declined. Better. And with five children and an annual salary of \$35,000, by no means easy. But he was firmly resolved and set in his purpose. He was resolute.

So what if we drop the idea of a New Year’s Resolution, and instead propose the idea of a New Resolution. A resolution not dependent upon a date on the calendar and not doomed or designed to fail and be swept aside. A simple, yet hard, plan to move forward with purpose. A resolution that allows us to be better by honestly identifying our goals and values. That allows us to do better by challenging ourselves to daily make choices consistent with our beliefs. That allows us to give our children better by letting them make and deal with their own mistakes. That allows our society to get better acting with responsibility and accountability. A New Resolution that directs us, governs us, and empowers us to live confidently, fully, and purposefully.

“Character is the ability to carry out a good resolution long after the mood in which it was made has left you.” Cavett Robert

MARKET SENSE

Being Prepared is Half the Battle

The Intersection of Preparation and Opportunity

Dare we say the markets in 2010 acted normally? Looking at the markets from the surface this is the logical conclusion — U.S. stocks returned just over 15%, bonds produced roughly their coupon with returns just over 6%, and many measures of risk and financial market stress reverted to pre-crisis levels. The most commonly quoted indicator of stock market risk/fear is the VIX index, which measures volatility. As the ball dropped this New Year's Eve the figure stood at 17.75 — down significantly from the three year average of nearly 30, and slightly below its long-term average of just under 20. This is important and perhaps this is the market's way of indicating that things are getting back to normal.

The year-end commentaries and 2011 outlooks all seem similarly titled this year with calls for investors to get back into the markets now that the waters are calm and the horizon appears clear.

In our year-end commentary two years ago (Winter 2009), we commented that "[i]t is a truism in investing that opportunity corresponds with discomfort and bad news. When the news is sunny again, the prices of assets will be much higher, and a large portion of the future returns will already have

been realized by those investors who were able to hang on or buy in the face of today's current confusion." Since the bottom on March 9, 2009 the U.S. equity market has nearly doubled, including reinvested dividends, and many global markets have done even better. In fact, gold, stocks and bonds have all seen significant capital appreciation which is something that basic economics would tell us should not happen simultaneously. Either we are suffering from inflation which harms bonds or we are in a deflationary/disinflationary environment which

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should either harm stocks or gold. In no long-term economic equilibrium should all three of these asset classes rise together. So how do we answer this riddle posed by the markets? Now that things seem safer should we be increasing exposure to stocks and growth oriented assets? Or, has much of the good news already been priced into the market? Which assets are poised for the best gains going forward and where are the hidden risks in the market?

In our year-end commentary of a year ago, we focused on two macro themes we felt would play out during 2010. First was the movement toward a 'bi-polar world.' This first trend remains in place as much of the emerging world continues to grow and transition toward a self-sustaining, domestically led economic expansion. Meanwhile, the developed economies of the West struggle under the weight of their large and expanding debts with resulting sluggish growth, above normal unemployment and compressed business cycles.

The second macro theme we discussed in our letter from twelve months ago was our concern about the ability for the markets to absorb the large increase in bond issuance of 2010 over the previous year. In that letter we pointed out that the 2009 market absorption of debt (i.e. after

Federal Reserve buying) amounted to zero. The projection for 2010 was for net \$2.5 trillion of new debt issuance. We speculated that this may not be possible without higher rates. In fact, rates on many bonds ended slightly lower.

Three comments seem appropriate. First, overall market volatility increased in April, near the end of round one of the Fed purchases. It was not until a second round of buying was announced in the Fall that the mid-year volatility began to ease and the markets resumed upward trends. This shows that the markets, without external stimulus, are unable to find equilibrium. Secondly, the market began to differentiate among risks -what economists call 'crowding out' - and did push some rates higher. The most vivid example of crowding out is found in the debt of the peripheral countries in the EU. The market is now beginning to discern among those investments with higher risk and lower risk and to favor the latter. Finally, as year-end approached, rates moved higher across the entire market, responding to better than expected economic data. Specifically, in November and December the market suffered through a sharp reversal which saw yields jump on the ten year treasury by more than 1% in a matter of weeks. This shows that investors remain on edge and are ready to act when need be.

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<i>S&P 500</i>	10.8%	15.1%
<i>Dow Jones Industrials</i>	8.0%	14.1%
<i>Russell 2000 (U.S. Small Company)</i>	16.3%	26.9%
<i>MSCI EAFE (International)</i>	6.6%	7.8%
<i>Dow Jones - UBS Commodity Index</i>	15.8%	16.8%
<i>BarCap U.S. Aggregate (Taxable Bond)</i>	-1.3%	6.5%
<i>BarCap 5 Year Muni (Tax-Free Bonds)</i>	-1.6%	3.4%

The bottom-line as we look back over the last year is that continued involvement of governments and central banks have cushioned (or perhaps delayed) the adjustments that are needed to set the stage for a longer-term and more sustainable healthy economy in the developed markets. So one clue to the riddle may be found in the effects of liquidity and of intervention by governments and central banks into the markets.

Before tiptoeing toward our 2011 outlook we think it would make sense to address a few significant markets that have been in the news frequently:

1. Municipal bond market -this has been one of the most hotly debated segments of market in recent months. It is also the area we spent the most time on over the past year given its importance to our clients. As is normally the case, our opinion of this market lies somewhere between the Pollyanna's who say there is nothing to worry about and the doomsayers who believe it will be the equivalent of a nuclear meltdown. The finances of many states are troubled and, similar to the Federal Government, they have made promises that simply cannot be fulfilled. However, debt balances in the municipal markets, in general, are modest compared to revenues and we believe the high quality bonds have a very small risk of default. Our concern lies more with the liquidity and

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political risks in the interim that can drive prices down if the markets become volatile. To address this we focused this year on reducing holdings that would seem to have the highest exposure to these risks. As always, we can't promise a smooth ride, but we believe we will arrive at our destination in one piece.

2. High quality U.S. stocks - to us, this appears to be the sweet spot in the market. When looking at the largest 100 stocks in the S&P 500 versus most indexes of smaller companies the relative valuation differences are near historic extremes in favor of large companies. On an absolute basis many of these companies now trade at levels that assume literally zero future growth rates. In our opinion, any growth in earnings over time will be recognized as a 'surprise' and



Market Sense

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prices will be drawn higher. Certainly over short periods of time, economic cycles and investor sentiment can keep these stocks from going up, or they can go down, but if we look out over a 5-10 year period we are relatively comfortable that these securities can produce attractive total returns compared to other areas of the market.

3. Emerging Markets - we have seen a persistent increase in discussions about emerging markets in general and China specifically. We have had an overweight to these markets for the last several years, and this positioning has served us well. In fact, one of the major contributors to our solid 2010 performance was the very large underweight to Europe and the large overweight to Asian emerging economies. That said, we recognize that risks in these markets are building. Our cautious nature makes us sympathetic to the vocal crowd that is 'shorting China' believing that it is the next great bubble. On the surface, it is easy to be concerned with rising inflation and stories of 'ghost cities' in China. However, we recognize two important distinctions in China — one being a general lack of leverage, and two a strong bottom-up demand for a better life. This is also true in other large emerging nations such as India, Brazil and Indonesia, though the media seems to focus

on the China debate. As we go into 2011 this is one area we will focus on intently and will not hesitate to make a change if we perceive a more troubling future. For now, however, we remain committed to our underweight Europe/overweight Asia positions.

The New Year is always refreshing and cleansing as we complete old tasks and anticipate new opportunities. We write out our new goals and set in motion actions to do things even better in the year ahead. On the investment team, human nature pushes us to review investment performance over these calendar periods and to grade our annual results and market calls. However, we try not to lose sight of the fact that investing is a cumulative endeavor and the cadence of the market runs to a different cycle than the Gregorian calendar.

Returning to our market riddle from above, we believe that 2011 could be the year that "bill starts to come due" as one of our favorite analysts, Jason Trennert writes. If asset markets have been pushed higher than they otherwise would be by the flows of liquidity both fiscally and monetarily, we see the possibility of these trends reversing course by mid-year. By summer, the markets could be looking toward 2012 and be concerned with what they see. The more rapid business cycle we discussed earlier may be due for a pause just at the same time a withdrawal of stimulus appears. This combination may cause several asset classes to decline together - with the biggest impact on commodities, emerging markets, and more aggressive U.S. equities. We caution the reader to recognize that it is too early to make definitive statements about how things may play out this year, but we anticipate that our next portfolio shifts will be to reduce market exposures rather than increase them.

Below we summarize our positioning and anticipated shifts by each major section of our portfolio:

1. U.S. equities - We continue with a "bigger is better" theme in the domestic portion of the portfolio. Although the liquidity tailwind continues to push small companies, we believe the valuation advantage is significantly in favor of larger companies. As dollar diversification and emerging market growth remain favorable trends, the fundamental picture is also better for large companies, in our opinion. In 2011, within this part of the portfolio we may also continue our shift toward higher quality, and more defensive investments.
2. International Equities - East over West remains the theme here. The significant tilt toward emerging



and Asian focused managers helped in 2010. We continue to believe that a bias toward these markets at the expense of low weightings to Europe makes sense. That said, European equities are becoming more attractive from a valuation perspective. At some point we will be bringing these allocations higher, but that time may not happen in 2011. In the meantime, it is possible that we will be reducing our overall international weightings by trimming emerging markets if we become more cautious. At this point though we continue to believe the secular bull market in these areas is intact.

3. Real Assets - This allocation had the highest growth across our portfolios in 2010. The theme of 'real' assets over 'financial' assets remains important, in our opinion. That said, any type of concern over global growth as we get into mid-year could cause a sharp pull back in commodities and related securities. We believe it may make sense to move toward more cautious real asset holdings during the year, including some real estate related assets.
4. Fixed Income - As mentioned above and in previous letters we spent a lot of our investment team time during 2010 on portfolio bond holdings. We are pleased with the changes we made and will continue moving toward the theme of shorter is better. We continue to shift balances toward higher quality and shorter term bonds in general. We remain extremely focused on the municipal markets and are available to review our latest thinking on this market with interested clients.
5. Alternative Assets - We anticipate that some capital could be added to our alternative bucket during 2011 as we look to reduce market exposure. The majority of holdings in this category are equity based investments that employ some type of hedging strategy.

As we enter the New Year, we offer you and those you care about best wishes for a peaceful, healthy, and prosperous 2011. We welcome any of your questions, comments or suggestions and as a reminder our investment team can be reached anytime at invest@signaturefd.com.

SignatureFD Brief

SignatureFD's Jeff Peller Named to the Atlanta Business Chronicle's 2010 40 Under 40 The award, in its seventh year, honors young up and comers in the Atlanta area. And while the honorees are all distinguished by their business accomplishments, they are also all making a big impact on the Atlanta community.

As a founding partner and managing director of SignatureFD, Jeff has been instrumental in growing the company from a start up to one of the largest independently owned registered investment advisory firms in the Southeast. But, when his oldest son was diagnosed with Autism, Jeff threw himself into that cause with the same determination and enthusiasm that brought success to SignatureFD.

Since 2008, Jeff has raised more than \$70,000 for Autism Speaks' Walk Now for Autism, and was the top individual fundraiser in both 2009 and 2010. He also serves on the advisory board of the Lionheart School, one of the Southeast's premier schools for children on the Autism spectrum.

"We are extremely proud of Jeff and everything that he has accomplished," said founding partner Doug Liptak. "One of our firm's core beliefs is that we are stewards of our community, and therefore are responsible for doing what we can to give back and improve it. Jeff is the embodiment of that principle."

Can We Help Your Family, Friends or Associates?

When the markets become as volatile and confusing as they have over the past year, even the most patient investors may come to question the wisdom of the investment plan they have been following. At SignatureFD, we hope we have provided our clients with clarity and confidence throughout this difficult period. Referrals are one of the greatest compliments that our clients can provide and we have been honored to receive a number of referrals over the past year. We would like to take this opportunity to say "THANK YOU!" and also to say "Please keep those referrals coming". If you know of anyone whom you think would be interested in an objective second opinion on their financial plan, please do not hesitate to pass their names along to us. Thank you again for your confidence and support.

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SPOTLIGHT



Tom Clarke
Investment Analyst

Tom joined the investment team at SignatureFD in 2007. As an Investment Analyst, Tom focuses on the manager research and reporting process and helps invest and administer our investment partnerships. Tom's role includes serving as the point person with most external money managers throughout our due diligence process which includes interviewing current and prospective managers in our office and external onsite meetings.

Prior to joining SignatureFD, Tom served as Vice President for Diversified Trust and Investment Manager for Homrich & Berg.

When I'm not working: I like to ski, hike and bike with my wife and three kids.

Favorite Movie: The Usual Suspects

Favorite book: The Bible

First Car: Ford Thunderbird

First Job: Sporting Goods Sales

Next Big Trip I'd Like to Take: Touring Southern Colorado in an R.V. with my family.

Favorite Quote: Do what you love, love what you do, deliver more than you promise. – Harvey MacKay

Formula for Success: Seek wise counsel, be humble, serve others.