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Are You On The Right Path?

Planning a trip requires a lot of things: finding the best time that fits in your family's busy calendar; deciding where you want to go; searching online for that perfect place to stay; and then finally getting everything packed and in the car. We can all remember driving along, either when you were growing up or maybe more recently as a parent with your children in the back seat, the proverbial question being asked no more than thirty minutes into your journey, "Are we there yet?" Regardless of all the preparation that has led up to this long awaited time away, if you live in Atlanta and your destination is Destin, Florida - but you get on I-75 north - you will never get to the white sandy beaches of the Florida panhandle.

Getting to where you want to go is more dependent on the direction you are headed, and not just upon your goals, dreams, and desires. It is not uncommon at the beginning of the year to sit down and think about what you would like to accomplish in the months ahead. The most frequent resolutions or goals focus on a person's weight and a commitment to eat better and exercise more. Others include getting your finances in order, setting goals at work, or maybe spending more time with family. Setting goals in the areas of finances, personal development, family and work, and putting them in writing is a great practice, but is not a guarantee that they will get you to where you want to be in life.

As you look around, there are countless examples of people who have achieved great success in sports, entertainment, business, or politics. However, in the midst of their success and the accomplishment of goals, somehow they made choices or decisions that caused them to lose everything they had worked for. Looking in from the outside, it is easy for us to say, "What were they thinking?"; or, "I would never have made such a foolish decision." Most likely, they didn't get where they are because of one isolated

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decision, but rather as the result of a series of decisions over time.

What most of us fail to connect is that decisions we make each day lead us in a direction, and each one is another step down a path. The question for us to consider is whether we know the direction we are headed. Are we able, when we start going down the wrong path, to not only recognize our misstep, but wise enough to do something about it. There is a proverb that says, "the prudent see danger and take refuge, but the simple keep going and suffer for it."

When traveling down the road with your GPS to help you navigate the unfamiliar, it is easy to respond to course corrections. It can be much more difficult in our personal lives, whether it be in the area of our relationships, finances, careers, or even our morality. Your "direction" is who you are becoming – whether or not it is what you intended. More than likely, the people we see in the news whose lives have come unraveled never intended to get where they ended up. However, the decisions they made over time were like steps down a path that led to an inevitable destination.

What determines the direction of your path and ultimately your destination? It is your values or the virtues that are important to you. At the age of 20, while on an 80 day ocean voyage, Benjamin Franklin developed a "plan" to provide direction for his life. His plan consisted of 13 virtues and a short description of each one, such as humility, sincerity, and frugality. He even came up with a chart and made a practice throughout his lifetime of reviewing these each day in order to check on his "progress." This chart is still used by many even today.

While values provide direction, as you are making decisions about where you want to be in the future, there is wisdom in the counsel of others. These are

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people who are at a stage in life, either personally or professionally, where you would like to be, or who have an expertise in a certain area of life that you do not have yourself. One of the key things that successful people learn during their lifetimes is the benefit of acknowledging what they don't know and being willing to learn from others and their experiences. They also understand the value of time. They understand that they gain not only the benefit of the counsel of another person, but they also save themselves valuable time in the process.

As you begin this New Year, we would encourage you to take the time to not just set goals, but to think beyond this year and consider the direction of the path you are on in the core arenas of your life – finances, family, professionally, spiritually, and relationally. It is much easier to write down a list of goals than to reflect on the values that are truly most important to you. Setting goals without first considering what your values are is like putting the cart before the horse. The benefit of doing so now is great and much better than having to find your way back onto the path you wish you had chosen in the beginning. FD

MARKET SENSE

A year ago the markets had just suffered their most traumatic six months in 80 years and the fears about global depression and further catastrophic losses ran through the prognostications for 2009. Now, a year later with the benefit of hindsight, we see that the markets turned in one of the most historic about-faces of all time. Not only were the doomsday scenarios way off the mark, the equity markets globally put in their second best returns in ten years. True, it was a rather dismal decade for markets, but still an impressive result. This market definitely deserves the 2009 "comeback kid" moniker.

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How to account for such a market turnabout in the headwinds of a still struggling economy and unemployment that is on the edge of post- World War II record levels? Simply, the markets are forward-looking and significantly impacted by liquidity. In a perfectly timed piece published the week of the March lows, Jeremy Grantham made this prescient statement, "Be aware that the market does not turn when it sees light at the end of the tunnel. It turns when all looks black, but just a subtle shade less black than the day before." In our 2008 year-end letter we wrote something

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similar, saying 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 have already been realized by those investors who were able to hang on or buy in the face of today's current confusion."

It appears that the huge amounts of stimulus created by global bankers and governments the world over have caused a re-synching of global economies and we believe the latter half of 2009 and early 2010 will be characterized by this global cycle. Here are three recent economic headlines from the first week of January:

- In recent days, [auto] sales have been brisk as auto makers stepped up incentive programs and took advantage of customers willing to buy without the aid of government rebates that spiked sales last summer.
- A jump in new orders spurred U.S. factories to step up production, with manufacturing expanding in December at its fastest pace in more than three years...[s]imilar reports in Asia and Europe also showed the pace of expansion quickened last month.
- Total holiday-season sales grew 1.8%, overcoming a tepid start in November with a late surge before Christmas...[t]he results left retail executives optimistic that they weathered the worst of the decline in consumer spending and are now better prepared to profit in months to come.

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S&P 500	*6.0%*	*26.5%*
Dow Jones Industrials	*8.1%*	*22.7%*
Russell 2000 (U.S. Small Company)	*3.9%*	*27.2%*
MSCI EAFE (International)	*2.2%*	*31.8%*
Dow Jones - UBS Commodity Index	*9.0%*	*18.9%*
BarCap U.S. Aggregate (Taxable Bond)	*0.2%*	*5.9%*
BarCap 5 Year Muni (Tax-Free Bonds)	*0.6%*	*7.4%*

So the market's anticipatory capabilities worked again, but where do we go from here? Will the economy transition back to normal in 2010? Will the good times in the stock and fixed income markets continue?

We were cautiously optimistic on stocks early in 2009 due to the very negative sentiment and attractive valuations and we increased our market exposure multiple times during 2009 as the sustainability of the advance became apparent. Client portfolios profited nicely as a result of these adjustments and the solid performance from our stable of managers during 2009. Moreover, client portfolios showed very attractive performance compared to the appropriate benchmarks for the year. Importantly, we designed portfolios for 2009 that we felt would outperform even if the acute conditions of early 2009 had persisted. Needless to say, given our efforts to balance risk and reward, we are very pleased that these same portfolios kept pace and exceeded the market during such an unexpectedly strong advance.

Up to this point a reader might assume that we are sounding the "all clear." We aren't saying that at all. In fact, the recovery to date has obscured the critical and still present structural issues looming over the global economy. As we get deeper into 2010 and into 2011, we suspect that the world will begin to move toward what Paul McCulley at PIMCO terms a 'bi-polar' state. The impact of this will depend on what he views as three critical issues: first, the exchange rate relationship between U.S. and China; second, the end of quantitative easing (government purchases of fixed income securities) in the U.S.; and finally, the transition toward a higher fed funds rate and the removal of other stimuli in the system. In some ways the speed of the recovery could actually harm the longer-term stability as it may increase pressure on the Federal Reserve and the Treasury to remove stimulus faster than some economists recommend, which could increase the odds of policy mistakes that could lead to market volatility or a 'double dip' recession.

DURING THE LAST FEW YEARS WE HAVE FELT THAT THE CREDIT MARKETS WERE A KEY TO WATCHING AND OBSERVING THE TRAJECTORY OF THE ECONOMY AND ASSET PRICES. AN ANALYSIS OF THESE MARKETS HIGHLIGHTS THE RECOVERY IN 2009 AND PORTENDS THE POSSIBILITY FOR TROUBLE AHEAD.

During the last few years we have felt that the credit markets were a key to watching and observing the trajectory of the economy and asset prices. An analysis of these markets highlights the recovery in 2009 and portends the possibility for trouble ahead. During 2009, net demand for credit (i.e. the amount of new issuance less principal pay-downs by borrowers) was equal to approximately $1.2 trillion, down from cyclical peak of almost $2 trillion in 2007. This $800 billion decline is due to the de-levering that has occurred in the private sector as well as the general effects of recession on demand for credit, and it happened in spite of the huge increase in treasury issuance. In combination with this the Federal Reserve purchased approximately $1.3 trillion of treasuries and mortgage backed bonds. Hence, the real story of 2009 is that the reduced issuance of debt was fully absorbed by the government and thus resulted in **no private market net purchases of fixed income securities during 2009.**

A combination of the lingering fear from 2008, the great opportunities available in fixed income in early 2009, and the low rates on cash, led to a sharp rise in investor appetite for fixed income. As an example,

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over $400 billion of assets flowed to fixed income mutual fund and ETF holdings in 2009, more than $100 billion higher than any previous records. Because of the huge surge in demand and the collapse in available supply, it is not surprising that the values of fixed income securities rose at a record pace and the yields on many securities dropped to near pre-crisis levels.

The trouble in the credit markets outlook arises because of the projected reversal in these trends during 2010. It is anticipated that, as a result of the continued high levels of government debt issuance, the reduced government purchases, and the modest rebound of credit demand by corporations and consumers, that net debt issuance may exceed $2.5 trillion in 2010. This substantial reversal in supply does not seem possible without pushing rates higher, in our opinion.

AFTER THE SHARP REBOUND IN ASSET PRICES LAST YEAR AND THE SOLID PERFORMANCE OF OUR PORTFOLIOS WE ARE CONSIDERING CHANGES THAT NEED TO BE MADE AND PROFITS THAT SHOULD BE HARVESTED. IN FACT, WE DO BELIEVE THE MARKETS ARE NEARING AN INFLECTION POINT AND SOME CHANGES MAY BE WARRANTED SOON.

Remember your days in Economics 101 — the mechanism for creating a new equilibrium when supply exceeds demand is a decline in prices. Within the world of fixed income, this lower price results in the higher yields needed to attract enough demand to force supply and demand into equilibrium. This principal has important implications for the broader markets and the economy. First, the higher level of interest rates will pose a 'tax' on economic growth. All else being equal, the higher level of interest rates will cause borrowers to forgo plans for expansion or spending due to the higher cost of capital. Secondly, the higher level of interest rates will draw capital into the fixed income markets, which may come at the expense of other asset types — such as equities. Thirdly, the flip side of the financing is savings. For the system to balance, every dollar of borrowing that occurs is offset by someone else's savings. This will put upward pressure on savings which is incremental money that won't be available for spending.

The government will most likely continue with programs designed to aid the credit markets and make this transition smoother. However, if there is too large an increase in Federal Debt, an accelerated weakening of the dollar may occur. A renewed effort to expand these programs would have a negative impact on the dollar.

There are many other issues of critical importance that we are watching, but the scope of this article will not allow for deep analysis. Some of these issues are as follows: unemployment; state and local government finances; geopolitical issues, specifically with regard to Iran; the relationship between China and the U.S.; mid-term elections in the U.S.; Chinese inflation; financial regulatory reform; and commodity prices.

After the sharp rebound in asset prices last year and the solid performance of our portfolios we are considering changes that need to be made and profits that should be harvested. In fact, we do believe the markets are nearing an inflection point and some changes may be warranted soon. The recovery since March has been a one-way street with the largest stock market pullback registering only 7.5%. The bull market we are experiencing is relatively young in tenure, but is rather mature based on some other factors, such as investor sentiment and total performance. We anticipate that during the

months ahead the markets are likely to be fraught with more challenges and bumps in the road. It is highly possible that one of these challenges would present itself when the market starts anticipating the 'beginning of the end ' of government induced liquidity. At some point during the first half of this year, we believe this shift is possible and we want to be prepared for it. In our opinion, this, along with the general headwinds from the financing risk we described above, will drive the markets for most of this year.

To be clear, we are not anticipating a return to bear market conditions nor are we anticipating a return to economic recession—though we will be on the lookout for both. Rather, we believe the market will perform in a more sideways manner with increased volatility in many asset classes and corrections could be larger than those experienced last year.

In order to position portfolios for the environment ahead, we are currently exploring several portfolio shifts:

1. Within fixed income we are likely to increase the focus on higher quality bonds as well as shorter duration and maturity portfolios. Additionally, we may trim some of the more aggressive fixed income exposures we made early in 2009 and reduce exposure to treasury inflation bonds. The funds generated by these changes will go to high quality, short-term fixed income.
2. Within the domestic equity allocation we will be progressively shifting to higher quality, higher dividend securities. At the same time we will trim our smaller company exposure and some of our more aggressive equity allocations. In aggregate the equity exposure will likely drift lower during the year.
3. Within the international markets we will stick with our theme of overweighting emerging markets and Asia while keeping only small allocations to Europe and other Non-Asian developed markets. We may trim some emerging market exposure as a means of reducing portfolio risk but we won't exit these positions entirely as we do believe the emerging world remains in a long-term bull market.
4. Finally, we anticipate that some of the cash raised in other parts of the portfolio will go within the broader "alternatives" category. Included in this will be an increase in our commodity exposure, and potentially a direct allocation to gold or gold mining shares. We also look to deploy some of the capital raised in hedged type equity strategies. We are currently expecting to keep our energy pipeline exposure and may reintroduce REITs into the portfolio.

We just completed another very difficult and volatile year and we thank all of our clients for their support, confidence, and well wishes. We are pleased that the 'need for patience' that we spoke of so frequently over the last few years has been rewarded, but we know that difficult decisions still lie ahead. We look forward to the opportunity of meeting and speaking with each of you in the New Year. We would also remind you that comments, ideas, and thoughts are welcome on our investment team email (invest@signaturefd.com). FD

SignatureFD Brief

Blair Cunningham spoke to a group of parents at the Lovett School on "Helping Your Child be Financially Responsible in the Midst of Affluence." Blair is passionate about teaching children the value of financial responsibility, and welcomes the opportunity to speak about this important issue.

Evelyn Green and her husband Huston welcomed their first child, Robert Jackson Green, on December 29, 2009 at 11:09 pm. Jack weighed 7lbs. 3 oz. and was 22 inches long. Welcome, baby Jack!

Todd Sheets and his wife Alice welcomed their second child, Anna Taylor Sheets on Thanksgiving Day, November 26, 2009. Anna was 6 lbs. 14 oz. and was 20 inches long. Congratulations, Todd and Alice!

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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600 Peachtree Street, NE Suite 2700 Atlanta, GA 30308 404 253 7600 www.signaturefd.com

SPOTLIGHT

Maria McCool

Property & Casualty Personal Insurance Manager

Maria McCool joined SignatureFD in March 2009 as part of the property and casualty insurance team. She graduated from the University of Georgia in 1988 with a BA in Insurance and Risk Management. Maria has 22 years experience in the insurance industry working for insurance companies and agents. Prior to joining SignatureFD, Maria was Senior Vice-President of Client Relationship Management for the insurance wholesaler Mercator Risk Services. Maria was married in April to Mike Stell and has two children: her dog, Punkin, and her cat, Klyde.

When I'm not working: I love to cook, hang out with friends, listen to music, and read.
Favorite Movie: The Sound of Music (I was named after Maria from that movie).

First Car: Honda Civic 2 door hatchback
First Job: Cutting grass for the neighbors. (I went on to much more glamorous jobs like babysitting, ice cream scooper at Baskin Robbins, driver s helper for UPS (chased by dogs), and a post office employee, to name a few.)
Favorite Book: *To Kill a Mockingbird* by Harper Lee
Next Big Trip I'd Like to Take: Italy or Greece