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FALL 2011
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The Fear Factor

He knew Hem was wondering, "Who moved my Cheese?" but Haw was wondering, "Why didn't I get up and move with the Cheese sooner?" As he started out into the maze, Haw looked back to where he had come from and felt its comfort. He could feel himself being drawn back into familiar territory—even though he hadn't found Cheese there for some time. He wrote a saying on the wall ahead of him and stared at it for some time:
What Would You Do If You Weren't Afraid?
—Dr. Spencer Johnson, M.D.
Who Moved My Cheese?

Fear is a powerful thing. We've all felt it because it is a natural human emotion, and honestly, without it, we wouldn't survive very long. In a life-threatening situation, the complex process that allows our brains to instantaneously take in signals, interpret them, and flood the body with the chemicals needed to trigger our "fight or flight" response is key to our survival.

But as humans, we have the unique ability to anticipate, and therefore to be afraid of things that haven't happened. This worry, or anxiety, is as much fear as the life preservation kind, but when this gets out of control—when we fear things that cannot actually harm us—we find that our ability to function normally is affected.

Our nation's 32nd president was well acquainted with fear. Franklin Delano Roosevelt was inaugurated on March 4, 1933 which was not only in the depths of the worst depression in our country's history, but also the very day when a run on the banks resulted in

The Fear Factor

32 of the 48 states closing their banks. It was a time of great uncertainty for the nation. But there's more. In his book *The Science of Fear: Why We Fear the Things We Shouldn't*, Daniel Gardner pointed out that, as if 25% unemployment, 50% less industrial production, and 2 million homeless citizens weren't enough to induce fear, this man, who was partially paralyzed from an illness just 10 years earlier, had narrowly escaped an assassination attempt just two month before. He states, "Eleanor Roosevelt understandably described her husband's inauguration as 'terrifying'."

The Roosevelts had every reason to turn back. To be, like Haw in *Who Moved My Cheese*—drawn back into their familiar. But as he took the podium for his first presidential address, Franklin Delano Roosevelt spoke the words that continue to echo today in their relevance. Words that were both defiant and encouraging merely in their truth.

> *This is preeminently the time to speak the truth, the whole truth, frankly and boldly. Nor need we shrink from honestly facing conditions in our country today. This great nation will endure as it has endured, will revive and will prosper. So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror, which paralyzes needed efforts to convert retreat into advance.*
> —Franklin Delano Roosevelt
> Inaugural Address

FDR knew that he needed to address the issue of anxiety and fear that was permeating the country, because "the Great Depression could hurt the United States. But fear could destroy it." He knew this was the kind of fear you have to leave behind in order to move forward. He knew that opportunity waits on the other side.

Interesting statistics from the National Institute of Mental Health tell us the following: 52% of what we fear will never happen, 30% are things that happened in the past and can't be changed, and 10% are issues considered trivial by most people. 92%. Only about 8% of what we fear can be considered legitimate.

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Considering that, when was the last time any of us sat down to really think about the role our fear plays in the decisions we make every day? From anxiety about health or financial security to worry about having to talk in public. Rejection, the unknown, starting over, spiders. Have you let fear rob you of your peace of mind, keep you from moving forward, keep you from the opportunity that waits for you? What would you do if you weren't afraid?

Take some time to think about it, challenge yourself, decide what you can control, and then move forward…so that, even in the midst of uncertainty, you can live Confidently, Fully, and Purposefully.

MARKET SENSE

Exploring the Current Markets

Investors were happy to see the third quarter come to an end. The combination of ongoing volatility and memories still fresh from the 2008/2009 financial crisis caused capital to flee at each successive negative economic or political report. The results of several broad market indicators are included in the nearby table.

ECONOMIC UPDATE

In recent newsletters we have written about the triple threat of economic risks hanging over the market: Euro-zone debt and currency crisis, U.S. economic slowdown, and a sharp pull-back in Chinese growth. All of these were much discussed over the just finished quarter, and to varying degrees have been drivers of recent performance.

First, let's review Europe. Our newsletter last quarter was dedicated entirely to Europe, and we wrote that, "the actions in European markets [in early July] have, in our opinion, escalated the European debt crisis to a point of no return." We continue to view European financial fears as the biggest threat to global growth, but recent moves by policy makers are encouraging. Policy makers are beginning to discuss more comprehensive and forceful solutions. The plan that is currently being considered contains larger write-downs on Greek debt, forced bank recapitalization, and an expanded and leveraged European Financial Stability Facility (EFSF). These programs are not addressing the underlying imbalances, but they may create some time and space for the structural issues to be discussed.

Shifting to the United States, we have noted that during the last week of September and first week of October, several economic reports seem to confirm that the U.S. economy is operating at what analysts call "stall speed", yet the predicted move into recession does not seem imminent. Various manufacturing reports, auto and retail sales, and the September employment report all seem to confirm modest growth. The concept of "stall speed" is that it is not likely to persist for long, with the economy either weakening toward recession or accelerating into more sustainable growth. At this point, we believe this prediction is hard to make, though the risks of a tilt toward recession have lessened some over the last few weeks. A financial crisis (most likely emanating from Europe) would be enough to push the U.S. into recession, but if that outcome is avoided then recession may be forestalled for now.

The final risk is that of a significant slow-down in China. Several of our current and prospective money managers who focus on China and other Asian countries report that even though ongoing and longer-term challenges exist, these important economies do not appear to be at near term risk of a major pullback. There are multiple reasons for this view, but they mostly revolve around the tools still available to the Chinese leadership. They have been squeezing the economy over the last year in order to slow food and housing inflation and credit growth. However, this tightening cycle may be nearing an end. Certainly if economic growth slowed dramatically they have the ability to provide stimulus to the economy. When needed, the Chinese leaders can produce dramatic stimulus that is effective in the economy within months or even weeks.

Though the global economy is fragile and susceptible to shocks, we believe that a significant retrenchment in global growth from current levels is not the base case scenario for investors. That said, please know that we are constantly monitoring the horizon for changes in this risk assessment and would take actions that we deem necessary if one or more of these threats were to intensify.

HOW DO EQUITY VALUES LOOK TODAY?

A key to investing is to recognize one's time horizon as this defines the type and liquidity of assets that can be held. When designing portfolios we generally invest capital that has a time horizon for equity investments of at least five years. This is important because, although the above discussion of risk is relevant for understanding today's markets and predicting the level of volatility that may lie ahead, these issues provide limited insight into asset prices five years or more in the future.

To better grasp the current outlook for equities, we believe a quick valuation update is appropriate. We often say that value and price are two sides of the same coin. That is to say, the future performance of any investment is the intrinsic value of that asset (or what its value will be at some point in the future) compared to the price paid for it today. The closing of this discount is what produces future return. Alternatively, if one overpays for an asset today, the process will work in reverse. <u>The result of this logic is that any asset, no matter how troubled, is an attractive asset at some price</u>. The goal of fundamental analysis is to perform this detailed work on all securities purchased in order to construct a portfolio of assets held at attractive prices and with embedded future gain potential. It is important to realize that the vast majority of our portfolio managers utilize this basic methodology in managing your assets.

So generally speaking how do asset prices look today? As everyone knows the world appears riskier today than a decade ago, yet this is not necessarily an important factor in determining return potential on assets, if held over the long-term. I recently heard one manager say, "<u>we buy companies not economies</u>." This is critical to understand when you think about where your hard earned money is deployed. The stock market is not a game, or a casino; rather it is a market

	3RD QTR.	52 WKS.
S&P 500 TR	*-13.87*	*1.14*
DJ Industrial Average TR USD	*-11.49*	*3.83*
Russell 2000 TR USD	*-21.87*	*-3.53*
MSCI EAFE NR USD	*-19.01*	*-9.36*
DJ UBS Commodity TR USD	*-11.33*	*0.02*
BarCap US Agg Bond TR USD	*3.82*	*5.26*
BarCap Municipal 5 Yr 4-6 TR USD	*1.97*	*3.75*

that allows individual investors to take minority ownership interests in real companies that own assets and generate cash flows. The economic backdrop is obviously a factor in company performance, but it is not the only factor. Today it is clear that many companies are very well run, have solid financial positions, and are trading at low valuations that have not existed in years, if not decades. Two examples are provided in the table below:

Microsoft						
	Revenues	Earnings	Shares Outstanding	Earnings Per Share	Stock Price	Price/Earnings
1999	$22.4 B	$7.4 B	10.3 B	$0.72	$58.38	81.08
2005	$41.4 B	$11.9 B	10.6 B	$1.12	$26.15	23.35
2010	$66.7 B	$17.6 B	8.4 B	$2.10	$27.91	13.29
11 Year Trend	Up 3x	Up 2.4X	Down 18%	Up 2.9x	Down 52%	Down 84%

WalMart						
	Revenues	Earnings	Shares Outstanding	Earnings Per Share	Stock Price	Price/Earnings
1999	$154.4 B	$4.4 B	4.5 B	$1.00	$69.13	69.13
2005	$308.3 B	$10.0 B	4.2 B	$2.40	$46.80	19.50
2010	$419.2 B	$13.2 B	3.6 B	$3.70	$53.93	14.58
11 Year Trend	Up 2.7x	Up 3X	Down 20%	Up 3.7X	Down 22%	Down 79%

Reviewing these figures, it is clear to see that, though investors do not view either of these companies as optimistically as they did in 1999, it is hard to find fault in how the companies themselves have executed their business plans. Both of these examples (and we can find dozens more) have grown revenues and earnings by between 2.4 and 3.0 times over the past eleven years. In both cases they have used excess cash flow to reduce shares outstanding by approximately 20%. However, the market has punished the stocks, resulting in both trading at a lower level today than they did at year-end 1999. This has caused valuations to plummet, with Microsoft trading at 13.3x and Wal-Mart for 14.6x as of last December. This means that both companies now have an earnings yield of between 7-8% while they have a consistent track record of growing these earnings between 8-10% per year. Both companies pay out about 40% of their earnings as dividends, with the remainder being reinvested in the company for future growth.

When looked at through this lens, and compared to most other asset types, large, multinational, highly profitable companies are among the most attractive places to invest capital today. This is true as a protection against inflation and, in many cases, deflation. Many of these companies also provide currency protection as they generate sales in multiple countries.

Valuations alone are never enough to move a market over the near-term. Given the macro risks and dour investor mood, it is possible that these companies can decline even further for some period of time. However, when looking longer-term, this valuation mismatch between historically low-risk, but currently overpriced, assets like high quality fixed income as compared to unloved but very attractively priced assets like the two stocks highlighted above will almost certainly correct itself in favor of the equities.

OUR CURRENT PORTFOLIOS

When managing money in a risky environment we believe one should work to balance the following three goals: minimize volatility, avoid permanent loss of capital, and maximize long-term returns above inflation. Being aware of near-term risks and the impact they can have on volatility is important, but should be balanced with the longer-term goal of achieving targeted returns. This process has led us to our current portfolios, which remain based on four big-picture themes: large over small in U.S. equities, east over west in international equities, overweight to real assets, and short-term versus long-term in the fixed income markets. Though some of these themes have been detractors from performance in recent quarters, we remain confident in the economic rationale behind each of these ideas.

Our investment team spends significant time and energy reviewing, analyzing, and debating our firm's overall asset allocation and our manager selections on an ongoing basis. In volatile periods like this, we find it can be helpful to provide some of the 'data' behind our analysis to help you gauge what is working and not working, and the reasons behind those moves.

Using the recent quarter as an example, it is helpful to understand that results across asset type were extremely wide-spread. The S&P 500, though down, dramatically outperformed other global markets, especially those in Europe and many emerging markets. In many cases the S&P outperformed by 10% or more during the most recent quarter. This was partly driven by another market trend, which was a powerful rally in the U.S. dollar, something that often happens in times of market stress. From lows in July, the dollar has gained more than 7%, which is a very powerful move in currency markets over such a short period of time. Finally, within the fixed income markets, holdings in long-term U.S. treasuries have gained more than 25% since January, while many other types of fixed income are languishing with little or even negative returns year-to-date. The bottom-line is that a properly diversified portfolio that is spread across multiple asset classes and currencies had a difficult time in this environment.

In delving further into performance this quarter, we were pleased that in aggregate our managers produced results that were in excess of their individual benchmarks. This means that any underperformance compared to benchmarks came from asset allocation decisions and not manager decisions. During the third quarter, all of the underperformance essentially came from our fixed income allocation. Given what we believe is an extremely unfavorable long-term valuation for U.S. treasury and other high quality fixed income assets, we have been transitioning this part of client portfolios for a few years now toward much shorter-term fixed income investments that take on more credit, currency, and manager risks. Within this part of the portfolio we have not only added to high quality short-term holdings, but also floating rate secured bank debts, short-term emerging markets currencies and bonds, and an opportunistic/hedged strategy. We remain unable to predict short-term market moves, but we remain confident that this mixture of fixed income investments will help meet the three goals reviewed above.

Within the equity portion of the portfolios, the sharp 'risk-off' trading and the move toward the dollar caused our investments in emerging markets (focus on Asia) and real assets (commodities and energy) to underperform. However, these relative moves were almost entirely offset by investments in hedged strategies as well as our general underweight to equities.

We understand that current market volatility is frustrating. Our primary goal is to make sure that we don't lose focus of time-tested investment principles. We stand willing and ready to share further ideas with you about specific portfolio questions. Please never hesitate to reach out to either your relationship manager or anyone on the investment team via our email **invest@signaturefd.com**.

The Balancing Act

Life is like riding a bicycle. To keep your balance, you must keep moving.
—Albert Einstein

Everyone struggles with balancing work and life. Whether that work takes you into an office, keeps you on the road, or sees you managing all the moving parts of a household, there is always a line that is hard to maintain. Jack Welch, former CEO of GE doesn't believe it is attainable. In fact, he said, "There's no such thing as work-life balance. There are work-life choices, and you make them, and they have consequences." There is no denying his success at work. But he has since made it very clear that the consequences of the balance he choose was dire for many around him.

But in Vince Poscente's book *The Age of Speed*, he recounts a great story told by Yvon Chouinard, the founder and CEO of Patagonia. The company had grown at a staggering rate through the mid-80's, but as the recession took hold at the end of the decade, they were suffering. They knew they had to do something radical, but instead of retreating to a conference room to strategize, Chouinard took the leadership to Patagonia. Argentina. To climb a mountain.

When they reached the top of the mountain, instead of focusing on the problems, they talked about their vision. About what their ideal future looked like. And interestingly enough, they realized that in their ideal world there really was no separation between work and home. But not in the way you may think.

Instead of looking for ways to keep work from spilling over into their personal time, they began to look for ways to put personal time and passion back into their work. So now, they don't look at their time as something that needs to be divided between work, home, and leisure. They look at it as a resource to find ways to use their passions to accomplish their goals.

And there is no denying their success either. The company is still privately owned and makes about $250 million dollars a year in gross revenue.

No doubt it is easier to do this when you work for a company that encourages this type of philosophy, but that doesn't mean we can't find ways to implement the practice ourselves.

What do you value? What are you passionate about? Re-examine how and what you think about balance. Instead of looking at your hours spent on particular tasks, look at your time spent on the things you value. When you care about what you do, the balancing act may no longer be an act.

SignatureFD Brief

SignatureFD Recognized for Growth SignatureFD has experienced strong growth this year and has been recognized, not only for that growth, but also for being one of the top investment advisory firms in *Investment News* Top RIA Rankings, *Accounting Today* Top Wealth Management Groups, *Financial Advisor Magazine* 2011 RIA Rankings, and the AdvisorOne 2011Top Wealth Manager Rankings. We enjoy serving each and every one you and are honored by the confidence you place in us.

SignatureFD Partners Named Five Star Wealth Managers Each year, *Atlanta Magazine* polls local high net worth individuals and financial industry professional to get their take on the best wealth managers in the city. This year, we are proud to announce that Blair Cunningham, David Fisher, Doug Liptak, Jeff Peller, Todd Sheets and Chad Zimmerman have been given the honor of being named Five Star Wealth Managers for 2011. Congratulations!

SignatureFD Women's Practice Thriving SignatureFD's Women's Practice has continued its mission to address the specific needs of women within the financial arena. This quarter, SignatureFD joined with Frazier & Deeter, SunTrust, KPMG, PriceWaterhouseCoopers and other leading companies in support of the Professional Women's Alliance (PWA) and Kennesaw State University's initiative to promote and increase women in corporate leadership. We are very excited to be a part of this important effort.

SignatureFD is honored to be named to the NABCAP Top 100 Wealth Managers of 2011 ranking. 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. Their ranking methodology attempts to identify top advisors regardless of size, firm, or channel they are associated with and is independently verified for accuracy of the information on the firms they assess.

SPOTLIGHT

Mimi Walden

Insurance Client Care Associate

Mimi is a graduate of the University of Georgia where she earned Bachelor degrees in Family and Consumer Science and Education. She joined SignatureFD in 2004. As an Insurance Client Care Associate, Mimi assists our insurance team with the implementation and servicing of life, disability and long-term care insurance. She is responsible for monitoring all new business applications, as well as coordinating in force policy reviews. She also provides administrative support for the insurance team.

Mimi is involved with several local charities. She currently serves as a board member of the Manna Scholarship Fund, which helps raise funds to provide scholarships to bridge the gap between insurance and treatment costs for teens with life threatening eating disorders. Mimi is a native Atlantan who attended Mount Vernon Christian Academy and currently resides in Midtown.

When I'm not working: I am arranging flowers.

Favorite Movie: *Stand By Me*

Favorite book: *The Help* by Kathryn Stockett

Favorite Quote: *"I'd rather regret the things I've done than regret the things I haven't done."* – Lucille Ball

First Car: Jeep Wrangler

First Job: Cashier at the dry cleaners in high school

Next Big Trip I'd Like to Take: Ireland

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