SIGNATUREFD

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SUMMER 2010 VOLUME 3 ISSUE 3

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Independence Day

If we had to find just one word to sum up the financial landscape in the first half of 2010, that word would be "volatile". There is no doubt that the investment markets are testing our patience, but more importantly, our discipline. When faced with the uncertainty that walks hand in hand with volatility, it can be helpful to reflect on our history in order to gain a new perspective.

Each year, on the 4th of July, we celebrate our nation's independence. The birth of the longest running Democracy in the history of time. The founding of a nation that stands as a beacon of liberty and prosperity for the world.

Our Declaration of Independence states, "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights that among these are Life, Liberty, and the pursuit of Happiness."
And invariably, whether we are in times of prosperity or times of hardship, as our fierce nationalism is flowing, we hear people talking about "The American Dream". But what is that exactly? James Truslow Adams coined the term in 1931 in his book *The Epic of America*. He states, "The American Dream is 'that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement.'"

There is no doubt that material prosperity is a part of this American Dream. And in a free democracy and capitalist economy such as ours, people will continue to use their mental, social, and financial resources to create products and provide services of value for both personal gain and social good. Those who finance these endeavors will continue to demand a reward in return, and those who share in the risk of company ownership will demand a higher reward than those whose money languishes in cash. This has been the way since the beginning of our country's economy, and history tells us that we can expect this to continue. More people will start businesses, more people will invest in them, and the cycle will continue.

Independence Day

As the financial system continues to stabilize and companies and individuals are able to borrow money for productive purposes, expectations for the economy, (and company profits) increase and we will see long-term stock market gains. And we can look to history for proof of this as well. No matter which financial crisis you select from the past, you will see that the long-term trend is always upward and onward. But not only that. When we recover, we, as a nation and as an economy, come back more resilient and entrepreneurial than ever before.

MONEY IS ONLY SIGNIFICANT TO THE EXTENT IT ALLOWS YOU TO ENJOY WHAT IS IMPORTANT TO YOU. FOR MOST OF US, THAT IS OUR FAMILY, OUR FRIENDS, OUR FAITH, AND OUR IMPACT ON THE LIVES OF OTHERS. WEALTH, TRUE WEALTH, IS SO MUCH MORE THAN JUST MONEY.

But let's look a little closer to home. Talk of independence and the economy eventually brings us to talk of personal financial independence. If there is one truth, and one truth only about successful investing, it is this: The way to make money is to buy low and sell high. Simple though it may be in theory, it often breaks down in practice because it takes patience to deal with the ambiguity of market returns, discipline to create a plan and stick with it, and confidence to stand firm and not follow the crowd as it lurches down an impulsive and emotional investing path.

This gives us perspective on our current economic climate, which is always good. But we were looking to gain a ***new*** perspective. So let's look back at our Declaration of Independence. "...Life, Liberty, and the pursuit of Happiness." The capitalization here is not an accident.

And what about that American Dream? After introducing and defining it, James Adams went on to say, "The American Dream...has not been a dream of material plenty, though that has doubtlessly counted heavily. It has been a dream of being able to grow to fullest development as a man and woman, unhampered by the barriers which had slowly been erected in the older civilizations, unrepressed by social orders which had developed for the benefit of classes rather than for the simple human being of any and every class."

We have said it before, and we will continue to say it. Money is only significant to the extent it allows you to enjoy what is important to you. For most of us, that is our family, our friends, our faith, and our impact on the lives of others. Wealth, true wealth, is so much more than just money.

My God! How little do my countrymen know what precious blessings they are in possession of, and which no other people on earth enjoy! —Thomas Jefferson

The future is unknown. And while we can't control the various situations we will be confronted with, we can control how we respond.

So what if, instead of achieving financial independence, we declare it? Independence from the anxiety that comes from financial uncertainty and freedom in the discipline found in executing a solid financial plan.

If money is your hope for independence you will never have it. The only real security that a man will have in this world is a reserve of knowledge, experience, and ability. —Henry Ford

It is time to take our focus off of money and put it back on Life. To claim our right to live confidently in the face of volatile times, to live fully while the external climate appears lean, and to live purposefully, knowing that a great life is one lived, upholding your values, in the meaningful pursuit of Happiness.

MARKET SENSE

Two Steps Forward, One Step Back

What a difference a quarter makes! We ended the last commentary with words of caution as the market had completed four sequential quarters of solid gains and the mood was building toward the possibility of a V-shaped recovery. However, reality set in during the recent quarter with the crisis building in Europe, and the ignition of concern globally that our economy, not yet at "escape velocity", was beginning to tire and potentially even fall back into recession. Markets ended the quarter with losses in the low double-digits. The box below highlights a few key benchmarks.

As a general flight to quality gained momentum during the quarter, fixed income investments rallied. Prices rose and yields dropped, as yields move inversely to prices. The diversification benefits of owning fixed income again showed their value as most balanced and diversified portfolios ended June with losses year-to-date in the low single-digits.

Although gains are always desirable, the losses thus far are well within normal market fluctuations, especially after giving consideration to the gain notched since the darkest days of 2008 and 2009. In an interim bulletin we sent on May 21st, we used the analogy of an earthquake and aftershocks, stating that it is quite normal for investors to prepare for another earthquake after the violent market declines of 2008 and early 2009. In reality, many of the economic consequences we are facing are more similar to the scary but less harmful aftershocks that follow a powerful quake. So what do we think of the economy now and what decisions are we making today based on the current environment?

Market Sense

We alluded to the concept of forward momentum in the title to this quarter's commentary. In fact we think the catchphrase, "two steps forward, one step back" is an appropriate way to describe the state of the economy and markets as we assess them half-way through 2010. We have written and spoken about the longer-term outcomes after financial crises, related recessions and the eventual debt deleveraging. History can be our guide and several good papers and books have been authored over the last year that discuss the most likely outcomes. We suggested three long-term economic outcomes last quarter.

- First, growth in the economy is likely to be muted as debt is reduced.
- Second, unemployment issues are structural and the rate of unemployment remains elevated above full employment for several years.
- Third, business cycles are likely to be compressed as the secular nature of rising consumer credit and spending gives way to the higher volatility of the manufacturing and inventory cycle.

In reviewing the most recent data we believe that this is now the scenario that is playing out. Over the past few weeks, both leading and real-time data (what economists call coincident), are weakening but not showing evidence of a double-dip. Inventory levels remain lean, housing construction is at multi-decade lows, and new car sales are stabilizing at levels at or below the scrappage rate. But the forecast is not all rosy. Consumer spending will not be powerful enough to create a robust recovery and the effect of the cessation of government stimulus is likely to impact GDP in the fourth quarter, by removing almost 1% from growth over the following 4 quarters.

Given that inflation rates remain extremely low, we are watching closely what is called nominal GDP. The figure that is spotlighted each quarter is the real GDP, which is

	2ND QTR.	52 WKS.
S&P 500	*-11.4%*	*14.4%*
Dow Jones Industrials	*-9.4%*	*18.9%*
Russell 2000 (U.S. Small Company)	*-9.9%*	*21.5%*
MSCI EAFE (International)	*-14.0%*	*5.9%*
Dow Jones - UBS Commodity Index	*-4.8%*	*2.7%*
BarCap U.S. Aggregate (Taxable Bond)	*3.5%*	*9.5%*
BarCap 5 Year Muni (Tax-Free Bonds)	*1.7%*	*6.9%*

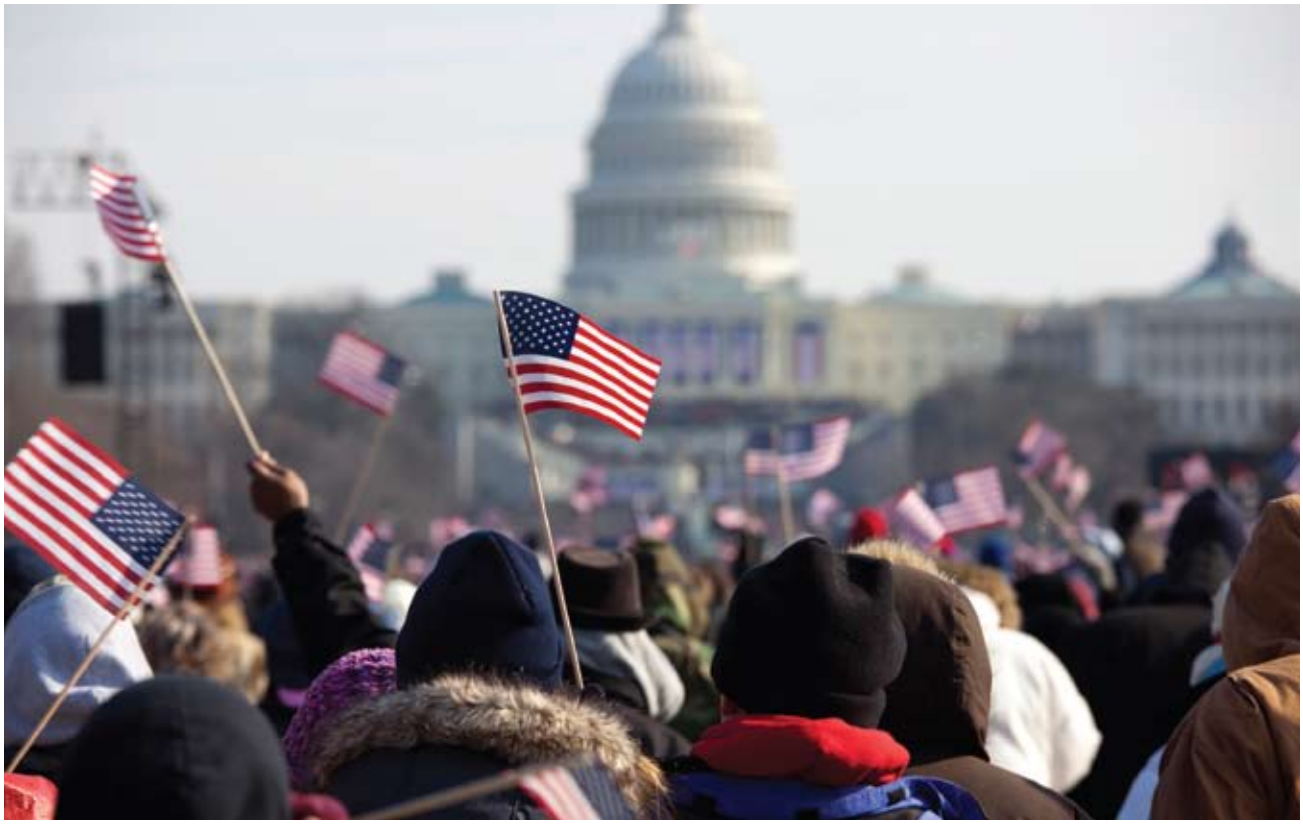
DURING A RECENT DEBATE WITH PAUL KRUGMAN, THE POLITICAL SATIRIST STEPHEN COLBERT STATED, "WHEN YOU'RE STARVING, THAT IS THE BEST TIME TO GO ON A DIET. YOU'RE ALREADY USED TO NO FOOD." AS FINANCIAL ADVISORS OUR ROLE IS TO REMAIN APOLITICAL AND TO CALL IT AS WE SEE IT.

the growth in the economy after taking out the impact of inflation. However, in this environment we believe that nominal, or the gross, before inflation GDP is critical to watch as an overleveraged economy needs some amount of top-line growth to keep from stalling. Revisiting the concept of "escape velocity", without nominal growth of 4-5% the costs of servicing debt will sap the economy of much of its strength. The data show that, beginning in the 4th quarter of 2010 and into 2011, these types of low nominal GDP figures are quite possible, and the resulting stagnation in corporate earnings is likely what the market is reacting to at this time. We will continue to watch the nominal GDP figures, as well as consumer spending, employment, and consumer confidence, all the while trying to determine the odds that this slow growth environment tips closer to outright recession.

In our opinion, the highest risk to our current scenario is major government policy error. We are on high alert along this front as the risk of such error has risen over the last few months. Given the significance of the decisions being made and the added tensions of a huge mid-term election in the fall, we recognize the political posturing that is taking place. However, the consequences of decisions made at this time are very significant and we are frustrated with both parties as they have become apologizers for the extreme ends of their respective caucuses. Our confidence in the future would be much improved if we felt there were true leadership taking place and decisions were being made in the best interest of the American public, rather than based on the impact it may have on the number of congressional seats gained or maintained.

The heart of this issue is taking root in the concept of 'financial austerity'. This concept which may ironically have taken shape in Europe following the Greek debt crisis during the spring, is now traversing the globe. In the U.S. it has resulted in polarizing positions between additional rounds of stimulus desired by the political left and an immediate reduction in deficit spending as espoused by the right. During a recent debate with Paul Krugman, the political satirist Stephen Colbert stated, "When you're starving, that is the best time to go on a diet. You're already used to no food." As financial advisors our role is to remain apolitical and to call it as we see it.

In our opinion, both extreme positions are flawed. The Keynesian concept of stimulus spending has lost its effectiveness as the market's reaction to low impact, deficit spending is now negative rather than positive from a confidence perspective. However, a deficit diet at a time when private sector demand remains strongly impaired and private sector debt deleveraging is accelerating, could push the economy closer to the debt deflation endgame that was avoided in late 2008. The rising tensions in each region of the globe– U.S., Eurozone, and Pan-Asia, are causing a rise in protectionist rhetoric and more discord among leaders. During the height of the crisis countries worked together to calm markets and provide a unifying message. However, as witnessed at the recent G20 meeting in Toronto, leaders from various countries are now visualizing different solutions to their regional economic problems. Be clear, globalization has not reversed course at this point, but a jolt in the direction of protectionism would be very troubling at this stage of recovery.



So what would we look for to be more positive on policy issues? Here are four major themes:

- First, targeted tax cuts and government spending to stimulate private sector demand—corporate spending and hiring which can result in sustainable GDP growth.
- Second, a commitment to globalization and coordinated efforts with our key trading partners in Europe and Asia.
- Third, a focus on debt reduction mostly related to long-term (i.e. the secular rather than cyclical nature of future deficits) spending controls and coordinated entitlement reform.
- Finally, a reduction in rule changes and tax law changes for corporate America and taxpayers.

The current environment is creating uncertainty which can result in hesitancy for employers to move forward with expansion projects.

The bottom-line is that many Americans are confused and scared and need to see government as part of the solution rather than part of the problem. Government cannot single handedly fix our issues, but they can serve in a role that no other organization can fulfill – that of a counter-cyclical ballast to offset the destructive nature of debt deleveraging.

It is clear from our commentary that we believe the economic crisis has morphed squarely into the world of government and public policy. A related area that has received significant attention lately is the economic

condition of our states and more specifically the investment attributes of municipal bonds. Numerous analysts and commentators have raised concern over the potential for investors to recognize significant losses in municipal bonds over the next few years. At SignatureFD we have spent significant time over the last six months analyzing the municipal space and preparing a game plan for the debt deleveraging wave that is coming toward this market. We have prepared a whitepaper on the subject for those interested in more of the details of what is happening in this asset class and how we are positioning client investments. The following comments highlight our thoughts from that paper:

1. We recognize the challenges that many municipalities are likely to face over the next three to five years. That said, the municipal market is very broad with tens of thousands of issuers. There are many positive tailwinds for the asset class – investors allocating more money to bonds, rising tax rates, and a search for cash flow. At the current time, we believe these tailwinds mean the challenges ahead are likely to be security specific rather than asset class wide.
2. We believe the risks to the asset class are mostly downgrade and headline risks as opposed to outright default risk. Municipalities by definition usually cannot go bankrupt or cease to exist. As a result most that get in trouble, based on our current analysis, are likely to restructure their obligations and eventually make investors whole – at least with regard to principal amounts. Restructurings may include reduced interest payments or extension of terms, but only in a small number of cases outright losses.
3. Finally, we are working with our managers to reduce the odds of loss by focusing only on the highest quality municipalities with essential service type bonds and slightly shorter maturities or those with fewer complexities that should weather the storm. We certainly can't guarantee that our efforts will be 100% successful, but we believe that by taking proactive action now, we are reducing risk and minimizing the costs to client portfolios over the coming few years.

We discussed the possibility of more transactions and portfolio shifts starting in the 2nd quarter, and that

MOST CLIENT PORTFOLIOS KEPT PACE WITH THE MARKET DURING THE MOVE HIGHER IN THE FIRST QUARTER, WHILE OUTPERFORMING DURING THE MARKET DECLINES OF THE MOST RECENT QUARTER.

has in fact happened as many of you may have noticed. We adjusted portfolios twice during the quarter with a net effect of more high quality domestic equities, more hedged equities, a slight increase in real assets, and more short-term fixed income. These changes were funded with sales from smaller company equities, convertible bonds, and longer-term fixed income. We are pleased with our portfolio shifts thus far, and believe that our overall portfolio design has added value during the year. Most client portfolios kept pace with the market during the move higher in the first quarter, while outperforming during the market declines of the most recent quarter.

In the near-term we are likely to move again toward slightly more cautious overall portfolios with a reduction in equity exposure and increases to hedged equity and short term bonds. If our thesis that the economy is suffering a growth scare rather than an outright double-dip, and policy mistakes are avoided, it is likely that the market will recover its footing later this year. That said, the immediate horizon is hazy and we don't see many catalysts to move the market substantially higher until after the November elections.

We are thankful to all our clients and for the confidence you have placed in our firm. We know these are challenging and uncertain times and we are working very hard to make wise decisions on your behalf. Please do not hesitate to contact your relationship manager, or to contact the investment team directly via email at invest@signaturefd.com with any questions or comments related to your portfolio.

SignatureFD Brief

SignatureFD is again named as one of the leading independent advisory firms in the country by Financial Advisor and Wealth Manager Magazines 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.

SignatureFD was a White Sponsor for the fifth annual Roswell-tree 10k, a race held on July 4th where participants "Run for Breakfast". All proceeds from the event support the Atlanta Community Food Bank. Todd Sheets championed SignatureFD's participation in this event.

SignatureFD & **Frazier & Deeter** raise money for Autism – The F&D team raised over $20,000 for the 2010 Walk Now for Autism, and was the #1 fundraising team overall. Jeff Peller was the top individual fundraiser for the entire walk. Autism affects about 1 in 150 children (1 in 94 boys) and is a complex brain disorder that inhibits a person's ability to communicate and develop social relationships, often accompanied by extreme behavioral challenges. The grim reality is that only a small percentage of children with autism are able to live and work independently as adults, and we are proud to be able to support this cause.

Ryan Bell joins us as a planning associate to provide analysis and planning support in developing the wealth management strategies for our clients.

Leila Ann Hartsfield joins as a client care associate. Her role is to ensure that each client receives exceptional service and that all of their account level needs are being met.

Harlan Graiser was asked by the Certified Financial Planner Board, because of his high score on the CFP exam, to participate on a team responsible for writing new questions for a future version of the certification exam.

Laura Rubin earned her double black belt in tae kwon do.

Chad Zimmerman was interviewed on Sandy Springs Radio by Margot Swann of Visions Anew on the topic "Financial Planning for Divorce".

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

SPOTLIGHT

Julia Paparelli

Senior Planning Associate

Julia joined the planning team at SignatureFD in 2010, bringing with her 3 years of experience in comprehensive personal financial planning. As a senior planning associate, Julia works with our team of advisors, providing planning support and assisting with the management of client relationships.

Prior to joining SignatureFD, Julia worked as a Senior Financial Planner at the The Ayco Company, L.P. which is a wholly owned subsidiary of Goldman Sachs. Before joining Ayco, Julia received her law degree and MBA in the Georgia State University joint JD/MBA program.

When I'm not working: I enjoy running, reading, going to the movies, and spending time with my family and friends.

Favorite Movie: Singing in the Rain

First Car: 1996 Champagne Colored Honda Accord

First Job: Selling motivational posters at the Successories kiosk at Cumberland Mall.

Favorite Book: The Three Musketeers by Alexander Dumas

Next Big Trip I'd Like to Take: The Cook Islands in the South Pacific

Favorite Quote: "If you are not emotionally involved, your client is not getting your best effort." - Joe Jamail, Attorney

Formula for success: Put 100% into everything you do.

Executive I admire: Steve Jobs