



Welcome to our new format for newsletters, portfolio updates, and important events. Per your feedback, we have changed quarterly correspondence to monthly, and made our analysis a shorter and quicker read. It is our goal to keep you informed, educated and up to date. Please take a look at the bottom of this email for important and relevant events!

**March 1, 2011**

For those of you that have read our insight in the past few quarters, the recent pullback should not come as a surprise. Our model has for some time indicated that market optimism and technical readings were reporting that short term caution was warranted. It was our conclusion that we were due for a rest, and a possible correction in the 4% to 8% range. No one ever really knows what catalyst will cause such an event, but the continued unrest in the Middle East and Northern Africa, coupled with the resulting rise in oil prices, surely did the job this time around. This is to say that we feel the correction is not yet behind us.

QE2 (the 2<sup>nd</sup> round of Quantitative Easing by the Federal Reserve) is set to wind down in the June/July time frame. This is of particular concern as this 'printed money' has held interest rates down for things like mortgages, loans for capital equipment, and the like, ultimately creating *potentially* artificial demand. (This has been accomplished by the Fed selling short term bonds at very low rates via QE2, and purchasing their own bonds in the 3 to 7 year time horizon).

The pessimists warn that once the artificial demand for these assets is subsequently withdrawn from the system, rates will trend higher as investors will require higher rates to invest in Treasuries. This in turn would further complicate the housing conundrum, decrease demand for machinery and other finished goods, and ultimately force the sub-normal economic recovery off its rails. This would naturally put downward pressure on stock/equity investments as earnings growth would surely suffer. While we do not find sufficient data to support these opinions in their entirety, we do listen intently to informed 'bears' and ultimately use that information to protect your portfolio against our own information bias. Above all, it is our goal to manage risk prudently.

Inflation is worthy of being feared, and remains a serious concern of ours for clients in the next decade. QE1 & QE2 were the equivalent of printing money, and ultimately the price will be paid in higher costs to us all. We believe we have begun to see the effects of these monetary policies

via higher energy and commodity prices. You know we're in trouble when the gas pump shuts off at \$75 and your tank is not full, and if you haven't bought milk or meat of late, you may be stunned the next time you visit the grocery store. Ramen noodles anyone?

*We remain constructive and optimistic on equity investments and would suggest using any correction as an opportunity to rebalance and selectively purchase in line with your target equity allocation.* While growth will continue to be moderate, earnings ultimately drives valuations, and earnings should surpass historic highs in the next year or so. We feel the market is fairly priced at its current P/E of 17. This is very good news for stock investors. We would warn however that not all companies are profiting equally and as such we have a preference for actively managed investments vs. passive index based investing. Looking out, 2012 may be a more difficult year for earnings valuation, due to increased year over year comparison.

Summary:

Stocks look more attractive than bonds on a relative basis, favoring mid capitalization, technology and energy shares. Although we do not find immediate concern, we suggest reviewing your bond portfolio to ensure your comfort with potential outcomes of higher inflation and higher interest rates. We expect slowly improving employment figures, higher demand for goods and services, and continued economic expansion. Set-backs and volatility are to be expected throughout 2011, but we feel higher stock prices will reward the patient investor.

Respectfully Yours,



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Disclosures:

***Past performance is not indicative of future results. There is no assurance any of the trends mentioned above will continue in the future. Investing involves risk and investors may incur a profit or a loss, including the loss of principal.***

*Any opinions are those of Nicholas Bonn and not necessarily those of Raymond James. Expressions of opinion are as of this date and are subject to change without notice. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Commodities are generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be*

*sharp price fluctuations even during periods where prices overall are rising. Specific sector investments, where companies engage in business related to a particular industry, like energy, are subject to fierce competition, the possibility of their products and services being subject to rapid obsolescence and limited diversification. Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.*