

June 18, 2010

Dear Valued Client:

After rising almost 9% in the first 66 days of 2010, the market abruptly changed direction on April 24, 2010. The reasons for pullbacks are never singularly focused, but are instead a combination of things. In this case, it was the market priced for perfection running into the emerging fiscal concerns of several European countries, which was enough to reverse the market's sentiment and thus its direction.

It is important to note that the problem in Europe, which has primarily centered on Greece — as well as Spain, Italy, and Hungary — is not the first casualty to arise, it is just the latest fallout from the 2008-2009 recession. The fact is there have been many victims of the aftershocks of the severe recession we have just exited. These include the nearly 8 million workers who lost their jobs, hundreds of thousands of homeowners who lost their residences, and the too-many-to-count number of small businesses that had to close up shop. Now, we can add troubled countries, like Greece and others, to the list of casualties caused by the most severe recession since the Great Depression. The market's concern is that these many aftershocks of the Great Recession have created a wave that will spread through the global economy and send the world back into a double-dip recessionary episode.

While this could happen, in theory, the market is likely giving too much credibility to a serial-defaulting nation like Greece to derail global growth. For whatever reason, the market is concerned about a country the geographic size of Alabama with an economic size smaller than that of the Dallas-Fort Worth metropolitan region. While not insignificant by any measure, one wonders how a country the economic size of Dallas could actually derail the world's global economy.

However, even if the economic impact of Europe's issues become more widespread, the fact remains that the market's assumption that the world is held hostage by the emerging difficulties in parts of Europe is misplaced. While there has been much focus on the negative effects of the crisis in Greece and other European nations, which are real concerns and real negative headwinds for the global economy, what the markets have not factored in is that positive events have also sprouted as a result of these issues.

One of the many positive side effects stemming from the struggles in Europe is that production inputs, like commodities and raw materials, are pricing in a huge global slowdown, which has sent oil and copper prices down significantly. So, while the market is worried that Greece will slow down global growth, shouldn't it be optimistic that manufacturing companies in the U.S., China, and around the world may now be more profitable since they can make products at 13-20% less costs than they could just 30 to 60 days ago?\*

But the "benefits" of the problems in Greece do not just apply to manufacturing; they also help us consumers. As the fears over the problems in Europe have intensified, investors have flocked to the safety of U.S. Treasuries. The demand for these bonds has driven up prices and thus sent their yields plummeting to the current 3.2% levels (as of June 17, 2010, measured by the Barclays 30-Year Treasury Index). This means that mortgage rates for home buyers and refinancers have also moved lower given their near lockstep movements

with Treasury yields. In fact, the 30-year fixed mortgage rates have declined from 5.26% before the problems in Greece to as low as 4.84% as of June 11<sup>th</sup>.

But the biggest “benefit” of the problems emerging from the European fiscal crisis is that global inflation has been temporarily taken out of the picture. This has allowed global central banks in economic powerhouse countries like the U.S., China, and Brazil, which were briefly slowing down global growth by shifting from accommodative to restrictive monetary policies, to once again have a reprieve from inflationary concerns and place their foot back on the economic growth accelerator.

The bottom line is that the market is focusing solely on the worst case scenario the impact of Greece (and other European countries) will have on the prospects for global growth. The problem is that this is only part of the equation and frankly, the smallest part. While a European slowdown has its impacts, I feel confident the market would accept problems in Greece in exchange for more accommodative global central banks any day of the week. From this point of view, perhaps we shouldn't be worried about what is happening in Greece, we should view it as a positive.

As a result, I believe that now is the time to consider adding attractive investment opportunities. This pullback has been overdone, valuations are now set at attractive levels, and fundamentals of the market continue to trend towards the transition to sustainable growth. But do not expect a straight up rally from here. This market remains in an improving but fragile state. While I expect an upward trending market, volatility will likely remain very elevated. But the good news is that fear creates investment opportunities and there is an abundance of fear out there. As always, if you have questions, I encourage you to contact your financial professional.

Best regards,

Dave Waters

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Stock investing involves risk including loss of principal.

International and emerging markets investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of funds shares is not guaranteed and will fluctuate.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses

The Barclays 30-year Treasury Index is a managed index comprised solely of the most recently issued 30-year Treasury bond. The index changes upon the issuance of a new 30-year Treasury with a different maturity date.

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