

THE MARKETS

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THIRD QUARTER 2010

THE LAST QUARTER IN REVIEW

After four consecutive quarters of positive returns, the equity markets experienced a significant reversal (e.g. S&P 500 was down 11.3%). The slowing of growth in the U.S. economy and concerns over European sovereign debt and bank issues were the main drivers of this performance.

US Real GDP	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010
	-0.70%	1.60%	5.00%	5.60%	2.40%

GDP = consumer spending + business investment + government + exports - imports.
Source: www.bea.gov

The U.S. economy (real GDP) put in another positive quarter as it increased at an annualized rate of 2.4% (advance estimates). While the economy continues to grow, it is doing so at a slower rate. This quarter's result is lower than the revised first quarter which was at 3.7% and the performance in the fourth quarter of 2009 which was 5.0%.

A significant portion of the growth (1.1% of the 2.4%) came from the increase in private business inventories. While it is normal for business spending to be more prevalent at the beginning of recoveries, its significance can't be relied on for long term expansion. Eventually, these companies will need to see sales continue to increase, which means consumers will need to spend. While disposable income rose 4.4% in the second quarter, savings rates increased as well. The personal savings rate was 6.2% for the quarter, compared with 5.5% during the first quarter. While the increase in the savings rate is good for the long term benefit of the economy, a lack of near term consumption can lower economic expansion.

Consumer Price Index	1 Year	3 Year	5 Year	10 Year
	0.97%	1.49%	2.26%	2.32%

Consumer Price Index numbers are annualized through 6/30/2010.
Source: www.morningstar.com

The producer price index (PPI) for the quarter decreased for the first time since the fourth quarter of 2008. Deflationary numbers such as this will give the Federal Reserve pause before raising rates any time soon.

LOOKING FORWARD

We anticipate a very moderate recovery with continued volatility in the markets. Consumers have continued to focus on increasing their savings and paying down debt. Meanwhile, corporations have predominately continued to report improved revenues and profits. This has contributed to an increase of investment spending in business equipment and software. In the past this has usually preceded new hiring as companies exhaust ways to increase productivity. However, this time consumer and businesses are showing more caution, as the consumer appears more fo-

"I, however, place economy among the first and most important republican virtues, and public debt as the greatest of the dangers to be feared."

Thomas Jefferson, 3rd U.S. President & author of The Declaration of Independence

cused on repairing their personal balance sheet and corporations are slow to add new jobs. Both groups may have concern for the probability of higher taxes as a result of the massive deficit spending by governments around the world. The Fed's monetary stance and job growth will continue to be monitored closely as we move forward.

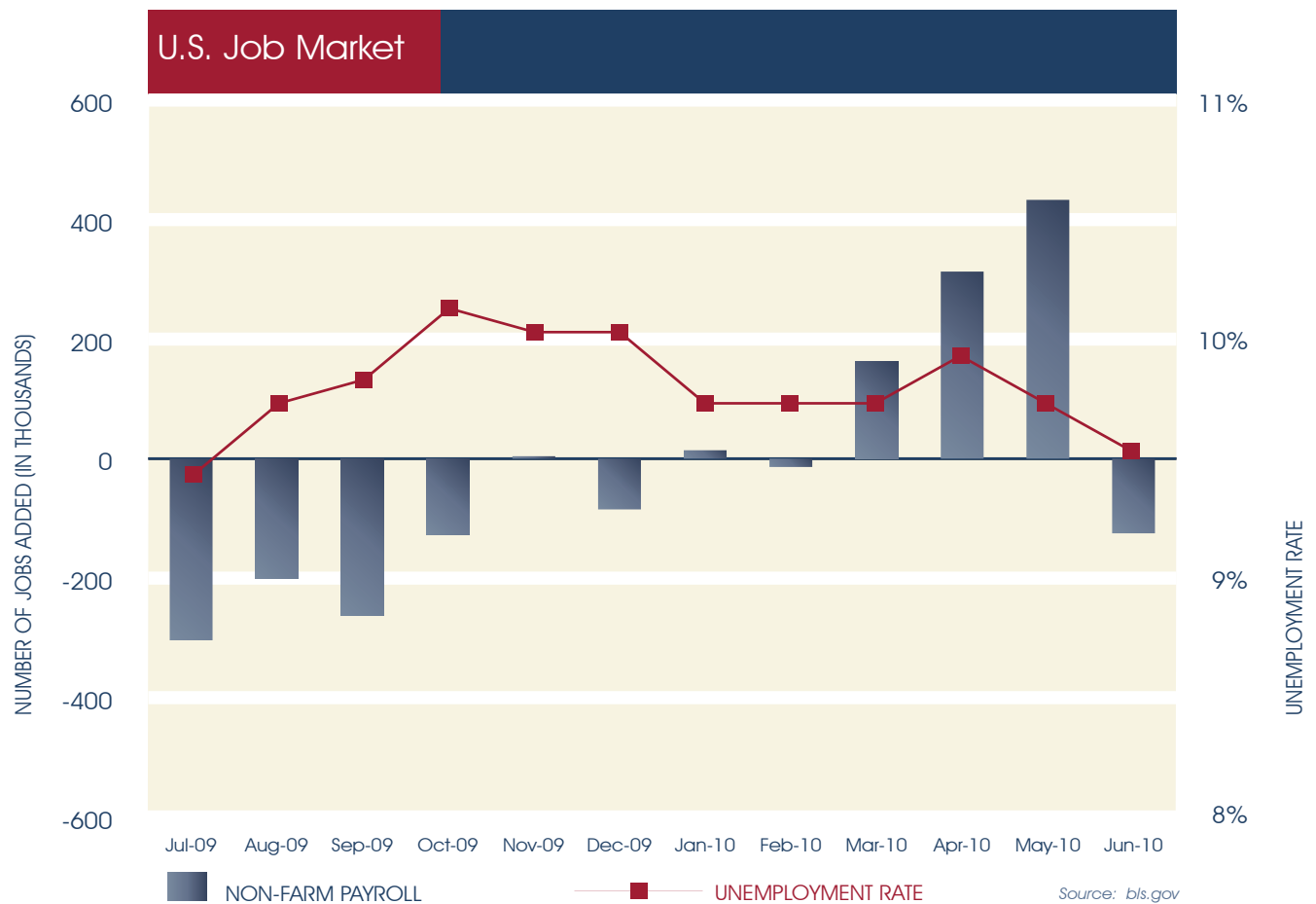
EQUITY MARKETS

Corporate profits continued to improve but were not enough to keep the markets moving upward. Concern over the European sovereign debt issues renewed some financial crisis fears. There has been much attention paid to the balance sheets of European governments and banks. While the majority of the European banks passed a 'stress test', some believe that the metrics used in the test were too easy. The major concern was that it didn't factor in a default by any of the financially troubled countries. Our equity allocations in the European markets remain lower than our standard benchmarks with no immediate plans to alter this posture.

Large cap stocks continued to underperform the small and mid cap stocks this quarter, as they have for the year. As for sector positioning, currently we remain over weighted in the health and technology sectors. After under performing the market in 2009, the health care sector has continued to lag the markets in 2010. We continue to overweight this area with the belief that as the effects of the passing of the reform bill are understood, valuations may begin to return to normal levels. Corporations have begun to increase their funding for technology infrastructure, a dynamic that we believe will continue into 2011. While the banks have continued to produce results that show they are healing, we remain underweighted in the financial sector until we see signs of growing credit demand and supply.

Major Indices	Returns †						Risk †			
	Qtr 2 2010	2009	1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year
Barclays Cap Aggr Bond Index	3.49%	5.93%	9.50%	7.55%	5.50%	6.47%	3.12%	4.12%	3.70%	3.80%
Barclays Cap Muni Bond Index	2.03%	12.91%	9.61%	5.50%	4.40%	5.63%	4.66%	5.95%	4.83%	4.54%
Dow Jones Industrial Average	-9.36%	22.68%	18.94%	-7.39%	1.66%	1.68%	16.09%	18.89%	15.57%	15.58%
S&P 500 Index	-11.43%	26.46%	14.43%	-9.81%	-0.79%	-1.59%	16.89%	20.73%	16.83%	16.16%
Russell 2000 Small Cap Index	-9.92%	27.17%	21.48%	-8.60%	0.37%	3.00%	22.51%	26.63%	21.97%	21.05%
MSCI EAFE (Foreign) Index	-13.97%	31.98%	5.92%	-13.38%	0.88%	0.16%	18.86%	24.87%	20.48%	18.07%
MSCI EM (Emrg. Mkts) Index	-8.73%	78.51%	23.15%	-2.50%	12.73%	7.32%	20.23%	33.40%	28.20%	25.66%
NASDAQ Composite Index	-11.84%	54.67%	15.98%	-5.95%	1.37%	-5.39%	19.87%	24.18%	20.00%	25.30%
DJ Wilshire REIT Index	-4.13%	28.46%	55.68%	-10.33%	-0.36%	9.74%	25.04%	41.85%	33.80%	26.12%
DJ / UBS Commodity Index	-4.81%	2.78%	2.75%	-8.36%	-1.32%	4.41%	13.19%	23.93%	20.53%	17.60%
Goldman Sachs Commodity Index	-10.41%	13.48%	-5.43%	-12.45%	-8.13%	0.90%	18.71%	32.24%	28.25%	25.41%

† 1, 3, 5 and 10 year return & risk numbers are as of 6/30/2010. Risk, the standard deviation, is a statistical measure of volatility of a portfolio's returns around its mean. Past performance is no guarantee of future results. source: Morningstar Advisor Workstation



INTEREST RATES & FIXED INCOME

Renewed concerns of a financial crisis caused by European banks drove many investors to return to the perceived safety of U.S. treasuries. There continues to be record flows going into bond funds this year, especially the high grade government, corporate and municipal securities. While we anticipate that the recent move to safety may continue to increase prices in these areas for the short term, we believe this may not be a strong long term investment due to the low yields and significant interest rate risk. As stated in prior issues, our fixed income strategy has predominately been to move down the credit ladder in an effort to gain higher yields, offer better returns and reduce interest rate risk. While the last quarter's move into treasuries hurt this strategy, we remain patient.

However, there are other areas of the bond market which are undervalued, such as senior floating rate loans. We have continued to add to this area throughout the last quarter. Another advantage to these investments is that their coupons are adjustable which should provide some protection as interest rates rise.

Key Rates				
	Prime Rate	3.25%	10 YR Treasury Yield	2.96%
	1 YR CD Rate	1.14%	30 YR Fixed Mortgage Rate	4.67%

COMMODITIES, REAL ESTATE & ALTERNATIVE STRATEGIES

The Morningstar Long-Only Commodity Index was down 2.9% in the quarter. Metals were up 7% and have risen more than 40% over the past year. The Gulf Shore oil spill stirred concern that potential new regulations may increase future costs on new drilling. However, concerns that the global economy was slowing along with higher than expected inventory data brought down oil prices for the quarter. Some commodity prices have begun to stabilize, we will continue to monitor this asset class for future increased allocations.

Fundamentals look to be improving for Real Estate Investment Trusts (REITs) as vacancies have started to bottom in some areas. Many of these publicly traded real estate companies have been able to obtain needed re-financing. This allows these entities the opportunity to purchase private real estate companies who do not have access to public markets for their financing needs.

We believe that markets will be somewhat volatile over the near future and have incorporated alternative strategies in an effort to limit the effect of volatility within client's accounts. While these strategies may tend to limit upside returns, they can offer the potential for positive returns during periods when equity or bond markets struggle. Look for more information about these strategies in future publications.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All data and information is gathered from accurate sources but is not warranted to be correct, complete or accurate. Statistical data obtained from sources including www.bea.gov, www.bls.gov and www.morningstar.com.

Financial Wisdom

But divide your investments among many places, for you do not know what risks might lie ahead.

Ecclesiastes 11:2, NLT

