

2010 Portfolio Review and 2011 Strategic Outline

Much of 2010 was overshadowed by the threat of a double dip recession, high unemployment, a struggling real estate market and talks of deflation. Major events including the Greek Debt Crisis and the BP Oil Spill provided market volatility through the first half of the year. It was not until the Federal Reserve Chairman, in an August speech, discussed the Fed's intent to implement a new round of Quantitative Easing, dubbed "QE2". The plan was formally announced in November, indicating the Federal Reserve would purchase long dated treasuries in an effort to bring long term rates down and inflate asset prices.

Throughout the year we remained cautiously optimistic, preferring to manage risk as best possible in this fragile economy. Despite this cautious approach we (often with as little as 30% equity exposure) we were still able to generate solid returns for our clients.

Looking at 2011, the general consensus is that it will be a good year for US equities and a bad year for bonds. Recent economic data has shown improvements in many key areas of the economy, and the Fed's buying program has had the desired impact of inflating the stock market from its August lows. As you are aware, when constructing a portfolio we look at seven core asset classes to build what we refer to as a Multi-Asset Global Portfolio. Within these seven Core Asset Classes we take tactical positions in various funds where we believe the greatest risk/reward exists. At times we may exit an asset class all together. In addition we have been using various Structured Notes issued by Credit Suisse and Barclays as a substitute for direct exposure to certain markets (gold, US equities etc) because of their equity like yields and substantial downside protection.

Below you will find some perspective on the various asset classes and an overview of the funds we are primarily using in each. Please note that no portfolio is going to own all of the funds discussed. Should you have questions about your own portfolio or how this methodology can/is applied please call us at 866.825.5253.

Multi – Asset Global Portfolio

Cash	Domestic Bonds	International Bonds	Domestic Equities	International Equities	Real Estate	Commodities / Resources
Money Market	Corporate Bonds	Developed Market Bonds	Large Cap	Developed Markets	Traded REITS	Natural Resources Fund
TIPS	High Yield Bonds	Emerging Market Bonds	Mid Cap	Emerging Markets	Non-Traded REITS	Commodities
			Small Cap			

← High Certainty ----- Low Certainty →

Cash

Cash for most accounts is swept into one of two Fidelity Money Market Funds. Given that short term interest rates are paying next to nothing, we have moved most of our cash positions into Short Term Bond Funds by PIMCO or T Rowe Price providing for yields of 1-2%. Looking ahead, as interest rates begin to rise holding cash in money market accounts will once again become a more attractive option.

Fund	Ticker	Total 2010 Return	12 Month Trailing Yield	Morning star Rating	Position Status
PIMCO Short Term Bond	PSHAX	1.58%	0.62%	***	Hold
T Rowe Price Sht Term Bond	PRWBX	3.13%	2.68%	****	Hold

Domestic Bonds

Bonds could prove to be a very risky asset class to own in 2011. With rates already at record lows and the economy improving, there is significant risk to bond values. As such, we are monitoring this asset class very closely. Domestic Bonds includes four primary categories of funds, (1) Treasury Inflation Protected Securities "TIPS," (2) Corporate Bonds (3) Municipal Bonds (4) Treasuries. The value of a bond is determined by the current market interest rates and how long until a bond matures. Bond prices move inversely to interest rates, so as interest rates begin to increase, the current market value of that bond will decrease. This is called interest rate risk. There are two ways in an increasing rate environment to manage interest rate risk. The first is to hold the short end of the yield curve or bonds that mature in the next 12-30 months. The second is to hold longer dated notes until maturity. As primarily fund investors, we will utilize 2011 to increase our exposure to the short end of the yield curve, while at the same time reducing exposure to longer dated funds. As interest rates increase our shorter dated funds will be the first to benefit. A few funds to look out for in 2011 include PRWBX and FFRA as replacements for Pimco Total Return, Fidelity Strategic Income and other longer dated funds. We will also be maintaining/adding TIPS exposure as a hedge against rising rates.

Fund	Ticker	Total 2010 Return	12 Month Trailing Yield	Morning star Rating	Position Status
PIMCO Total Return	PTTAX	8.36%	2.67%	****	Reducing
Fidelity Strategic Income	FSICX	9.92%	4.84%	****	Reducing
Vanguard Inflation Protected	VIPSX	6.17%	2.44%	****	Adding
Fidelity Floating Rate	FFRA	7.49%	3.21%	*****	Adding
Dreyfus Intermediate	DRITX	9.03%	3.77%	**	Reducing
T Rowe Price Sht Term Bond	PRWBX	3.13%	2.68%	****	Adding
Doubleline Total Return	DLTNX	N/A	N/A	N/A	Adding

International Bonds

Our international bond funds purchase and hold the debt of other nations. This is called sovereign debt. This is an important asset class as it provides a hedge against movements in the dollar, diversifies credit risk and enhances a bond portfolios overall yield. Going into 2010 we maintained positions in two primary funds Templeton Global Bond and ING Global Bond. At the onset of the Greek Debt Crisis, we consolidated our holdings to the Templeton Fund since it did not have any exposure to what became known as the PIIGS countries (Portugal, Italy, Ireland, Greece, Spain). We remain bullish on this asset class and believe that it provides a key counter balance to our Multi-Asset Global Portfolio Strategy.

Fund	Ticker	Total 2010 Return	12 Month Trailing Yield	Morning star Rating	Position Status
Templeton Global Bond	TPINX	12.68%	5.24%	*****	Hold
ING Global Bond	INGBX	4.31%	5.27%	****	Eliminated

Core Fund (Stock/Bond Blend)

We believe that it is important for all portfolios to have a “Core” holding that acts as the foundation in which the portfolio is built. Over the past two years this holding has been the Blackrock Global Allocation Fund (MDLOX). We like using an allocation fund as the core holding because unlike a straight equity fund, they do not have to remain bullish on stocks all the time. MDLOX has the benefit of being able to shift its asset allocation between equities and bonds. It currently maintains about 60% of its assets in equities and about 22% in bonds. Their bond portfolio has a duration of 3.2 which seems appropriate for this point in the rate cycle. Top holdings include Gold, Exxon, Apple, Microsoft and IBM.

Fund	Ticker	Total 2010 Return	12 Month Trailing Yield	Morning star Rating	Position Status
Blackrock Global Allocation	MDLOX	9.85%	1.15%	****	Hold

Domestic Equities

For most of 2010 we remained underweight Large Cap US equities, favoring to substitute exposure with Structured Notes tied to the S&P 500 and towards the end of the year the Russell 2000. These notes provided a 30-40% buffer to market downside while providing yields averaging 9 to 10% per annum. That said, we did maintain exposure in a few segments including small/mid capitalization funds as well as a few sector plays in consumer products and technology. For 2011 we are looking to selectively add US equity exposure primarily through First Eagles US Value fund which holds a 5% gold stake and is positioned very conservatively overall maintaining upwards of 15% of its portfolio in cash. We believe that this “dry-powder” will allow the fund to take advantage of any volatility in 2011.

Fund	Ticker	Total 2010 Return	12 Month Trailing Yield	Morning star Rating	Position Status
Blackrock Opportunity Fund	BMEAX	24.28%	None	****	Hold
Ivy Science & Technology	WSTAX	10.85%	None	*****	Hold/Add
John Hancock Large Cap	TAGR	14.2%	1.14%	****	Reducing
Third Ave Small Cap Value	TAXCX	16.2%	None	**	Reducing
First Eagle Value	FEVIX	12.48%	2.24%	*****	Adding
Third Avenue Value	TAVFX	13.87%	1.87%	***	Eliminated
Putnam Global Consumer	PRCOX	24.40%	None	N/A	Hold

International Equities

For 2010, this asset class provided the most “juice” to our portfolios. This asset class includes two distinctive categories Developed and Emerging countries. We believe the true growth engine in the global economy over the next decade is going to come from many of the emerging countries moving from net exporters to net importers. This will change the overall dynamic of the global economy as the allocation of resources shifts and drives growth. While we believe that

there is tremendous upside to investing in this trend, we recognize the risk and volatility that comes with it. For this reason we have opted for diversified mutual funds that are able to invest across numerous countries and regions rather than taking specific exposure in certain regions. As this trend gains in popularity we see an opportunity to move assets into countries such as Australia that will benefit significantly from emerging market growth, while attempting to mitigate risk.

Fund	Ticker	Total 2010 Return	12 Month Trailing Yield	Morning star Rating	Position Status
Janus Overseas	JDIAX	19.16%	None	****	Hold
Oppenheimer Developing Mrkt	ODMAX	26.98%	None	*****	Hold/Add
Lazard Emerging Market	LZOEK	22.43%	0.84%	****	Hold
Dreyfus China Fund	DPCAX	11.65%	None	****	Reducing
T. Rowe Price Latin America	PRLAX	18.49%	0.80%	****	Reducing
Ishares South Africa Index	EZA	36.91%	2.44%	****	Watch List
Ishares Australia Index	EWA	15.35%	3.07%	***	Watch List

Real Estate

Our exposure to real estate comes primarily from the use of Non-Traded REITS including Hines, Cornerstone and Strategic Storage. We also have added a few positions in traded REIT Funds. It is widely believed that the commercial real estate cycle bottomed sometime in the first half of 2010. There has been a tremendous amount of “opportunistic” capital poured into the sector to take advantage of distressed properties. Hines REIT, our largest real estate holding is currently closed to new investors and has a freeze on distributions. The fund reduced its quarterly dividend in June from \$0.151 per share to \$0.126 per share. This dropped the effective yield to about 5.5% per annum. Overall the strategic benefits of this position have not changed, it provides non-correlated diversification to the portfolio and will benefit in value as the overall real estate industry recovers. Looking at 2011, there appears to be a sound risk/reward opportunity in Traded REITS. Fueled by low interest rates, property owners are accelerating acquisitions and reducing their overall cost of capital. As the economy improves and buildings reach full occupancy, the increase lease rates should provide optimal net margin improvement.

Fund	Ticker	Total 2010 Return	12 Month Trailing Yield	Morning star Rating	Position Status
HINES REIT	N/A	N/A	5.5%	N/A	Hold
Fidelity Real Estate Fund	FRESX	29.85%	1.69%	***	Hold/Add
T.Rowe Price Real Estate	TRREX	29.89%	2.40%	***	Add

Energy/Commodities/Metals

With Oil now back above \$90 a barrel, Gold north of \$1,400 per ounce energy and commodities seem to be the most “expensive” of the asset classes. The bull case for energy and commodity stocks remains that as the world’s economies expand, demand for the worlds resources will increase, pushing prices higher. We look at our energy holdings as a hedge against inflation, as well as, a participation in the global economic recovery. Should we see a pull back in the energy sector we would look at that as an opportunity to increase exposure. As for Gold, the bull case is that it is now trading as its own currency and that a slight shift in investor asset allocations (currently 1% is allocated to the metal) will have a significant impact on the metal’s price. Our primary concern with all precious metals is that their price is supply and demand driven. Unlike a bond or equity, an investor cannot discount future income to determine its price.

Therefore, as demand outpaces supply, the price of the medal increases. Gold is typically purchased in fear. Fear of inflation, fear of economic disaster, and is often flocked to in periods of uncertainty. With the global expansion gaining traction, it seems that gold's best days may be behind it and as a result we have opted to gain exposure to it through our Large Cap US Equity Fund which holds a 5% gold position and Structured Notes with 30% hedges. Larger portfolios may have a 2-4% position in GLD as a long term diversifier.

Fund	Ticker	Total 2010 Return	12 Month Trailing Yield	Morning star Rating	Position Status
Blackrock Energy Fund	SSGRX	24.57%	0.91%	***	Hold
Fidelity Select Natural Resources	FNARX	23.09%	0.33%	**	Hold
SPDR GOLD SHARES	GLD	29.89%	0.00	N/A	Hold
Sun America Alternative Strategies	SUNAX	4.62%	None	N/A	Eliminated
MFS Utilities	MMUFX	13.57%	3.01%	*****	Watch

Structured Notes

Most clients now have between 5-20% of their portfolio in what is called a structured note. Structured notes are a hybrid debt instrument that provides equity type returns, while mitigating risk by providing a downside buffer to movements in the market. We attempt use several issuers as a way to further diversify risk. Some of the more recent issuers include Credit Suisse (Moody's Aa1, S&P A+) and BNP Paribas (Moody's Aa2, S&P AA-). The primary type of note we use is called a Callable Yield note. They come in 6 and twelve month maturities.

Term	Callable	Dividend Payments
6 Month	Every 2 Months	Every 2 Months and at Maturity
12 Months	After 6 months, then quarterly	Quarterly

For 2010 we primarily used notes as a substitute to direct equity (stock) exposure, obtaining 9-12% yields combined with downside protection of 30-40%. As notes are coming due and principal is returned we have done two custom notes (only offered to our advisory clients) that we believe provide a strong risk/reward as we look at 2011.

Issuer	Maturity	Callable	Dividend	Yield	Buffer / Securities
Credit Suisse	12/20/2011	6/20/2011	Quarterly	11.75%	35% RTY/GDX
BNP Paribas	1/15/2010	7/15/2011	Quarterly	10.00%	32.5% RTY/XME

Other Q&A regarding Structured Notes

- 1. Why is the market value less than what I paid for the note?** The asset you own is a zero coupon note that trades at a discount to par until the note matures and the principal is repaid. Although there is not a secondary market for structured notes, they are bought and sold prior to maturity. This is typically done at a discount to par, resulting in market quotes that show the current value of less than what you paid.
- 2. What happens if a note is called?** Notes are typically callable at the issuer's discretion 2-3 months after they are issued. If a note is called the issuer returns your principal plus and accrued interest to you. You then have the option to reinvest as you see fit.

3. **Why are notes called?** There are several factors that cause notes to be called, but we have found that market performance tends to have the greatest impact. If the market is up or flat from the notes inception then the note has a greater likelihood of being called.
4. **Why do the interest rates and knock-in levels differ between notes?** Volatility is a primary determinate in the pricing of a note. When markets are volatile then we typically see notes with higher yields and greater knock-in levels (think January 2010). When market volatility is low (January 2011) the yield and knock-in levels will be lower.

Summary

Going into 2011, we remain mildly optimistic of a continued bull market in US equities. We are going to hedge this stance through the use of conservative mutual funds and the use of Structured notes providing 30%+ of downside risk management. We are moving our bond portfolios in favor of the short end of the yield curve where any price depreciation will be small and short lived. We are holding exposure in energy and commodity based funds and looking to selectively add traded REIT exposure where appropriate. Internationally we will continue to favor emerging economies over developed both from a Debt and Equity perspective. Investors should note that the markets have been very "calm" over the past 3 months compared to the volatility that we experience from late 2008 through August 2010. Given the number of hedge funds, high frequency traders, and automated trading machines at play, it would seem unlikely that that the calm will continue uninterrupted. Do not be surprised if we see a correction in the coming months of 5-10%.

The information presented above is for educational purposes only and should not be viewed as advice or recommendation to purchase any of the mentioned mutual funds. Past performance in never and indication of future results. An investor should consider the investment objectives, risks, charges, and expenses of a mutual fund carefully before investing. The Prospectus contains this and other information about the fund. To obtain a prospectus please contact the offices of SB Wealth Strategies at 866.825.5253. The Prospectus should be read carefully before investing.

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