



Q4 2010 Quarterly Investment Commentary

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We frequently cite parallels between the weather and the markets to demonstrate trends that seem to persist for noticeable periods in our human lives. The seasonal cycles have far greater predictability than market cycles, yet both alter how we perceive our lives. In the latter part of 2010, Northern California experienced the proverbial “when it rains it pours”. Snow pack levels are high and, coupled with the solid precipitation from last year, has created full reservoirs. The snowpack and filled reservoirs means plenty of water for gardens, farms and industries this summer when it is needed. Similarly, the stock markets poured it on in the 4th quarter, generating a solid year’s worth of returns in three months. With continued signs of economic stability, we’ll see whether the increased wealth from this winter helps bring forth a spring and summer of financial rewards as fully as Mother Nature has brought us water.

Summary

Markets reacted positively to economic good news regarding the U.S. economy while European debt worries subsided temporarily. Investors who had turned to bonds during the crash became concerned with possible losses and began to shift assets into shorter-term bonds and stocks. The U.S. stock market gained an excellent 10.9% in the quarter and 14.6% for the year.

We expect the US economy to continue to grow, supported by fiscal and monetary stimulus through at least the end of 2011. We think the US dollar may strengthen against the Euro but will fall against emerging market currencies. While we could easily see a market pullback sometime this year after such a solid 2010, without a worsening of the economic growth story we are likely to add to our equity allocations at such a time.

Fourth Quarter 2010 Market Performance

Index	Q4	YTD
Russell 2000	16.25%	26.85%
Dow Jones Commodity Index	15.80%	16.82%
S&P GSCI Index	13.41%	9.21%
Russell Midcap	13.08%	25.49%
Russell 1000 Growth	11.84%	16.72%
S & P 500	10.87%	14.63%
Russell 1000 Value	10.54%	15.51%
Wilshire REIT Index	7.88%	28.22%
MSCI Emerging Markets	7.36%	19.19%
MSCI EAFE Equity Index	6.66%	8.21%
S&P 50% / BarCap Agg 50%	4.56%	10.89%
30-Day Money Market Yield	0.03%	0.14%
BarCap Global Aggregate	-1.32%	5.44%
BarCap Aggregate	-1.57%	6.15%

Markets were strongly positive in Q4, with the S&P 500 returning 10.9%, bringing the 2010 return to 14.6%. Small US stocks did well, returning 16.3% for the quarter and 26.9% for the year. Other US stock indexes also performed well as indicated in the chart. Commodities advanced by 15.8% and 13.4% in Q4, with the higher energy allocation in the Dow Jones index the better performer. For the first quarter since Q4 2009, US stocks outperformed emerging market stocks. Fixed income index returns were negative as fears of inflation and interest rate increases drove rates up.

Optimist or Pessimist?

This last quarter saw some significant shifts in our economic and political landscape. The Federal Reserve's previously announced quantitative easing program began in November with the Fed beginning the purchase of \$600 billion in Treasury bonds over a planned eight month period. In the November election, voters chose 60 new Republicans to the House, taking over the majority in the most dramatic shift in power since Democrats gained 75 house seats in 1948. So this last quarter had some big changes, yet continues to be a time with conflicting economic messages. While many positive signs are apparent, so too are both near and long term worries. Let's look first at those optimistic signs, and then follow up with the more pessimistic notes.

Optimist

Many market observers fall into this category based upon a good number of positive economic data and policies.

Near-term Tax and Fiscal Policy: In December President Obama engineered a tax compromise that held tax rates steady for another two years and cut FICA taxes by 2%, which along with the extension of unemployment insurance act as further stimulus to the economy. This will offset the scheduled decline in government direct stimulus spending and continue to act as a boost to the growth in the U.S. economy.

Consumer Spending: Shoppers turned out in force for the holidays, and in the face of terrible weather appeared to open their wallets again. The rebound in the stock markets has helped consumers feel at least some wealth effect, thereby leading to spending up solidly since a year or two ago. Americans grew more confident last month, stocks rose and fewer people filed for unemployment benefits, boosting the prospects for consumer spending in coming months.

Debt-level trends and debt service costs: The trend in household debt levels is down and that's good. On an absolute basis and relative to income, household debt has declined at the fastest rate on record. Much of the decline is due to defaults, indicative of problems people are facing, but the going forward level has at least improved. The financial obligations ratio measures debt service costs relative to income levels. This ratio has dropped sharply over the past two years as debt has been reduced and because interest rates are very low. The ratio is back down at the level of 10 years ago, when it was historically high, but not in the stratosphere.

Emerging Markets: With China, India and Brazil leading the way, emerging markets are growing nicely thanks to strong exports and improving domestic consumption. Emerging countries are flush with foreign currency reserves and lack the debt problems almost all the developed world faces.

Corporate Profits, Cash and Trade: In the United States, corporate profits have been better than expected as companies have aggressively cut costs over the last couple of years while benefiting from low interest rates and low wage growth. As a result of these strong profits, the corporate sector has record cash levels and is in a good position to hire and invest more as confidence continues to improve. Trade flows have been strong and the United States has benefited via improved exports; with the decline in the dollar, U.S. corporations are becoming more effective at exporting goods to foreign countries, slowly improving our trade deficit.

Leading Indicators: Most of the economic leading indicators have been solidly positive for over 12 months, including the Conference Board's gauge of the outlook for the next three to six months which rose 1.1 percent after a revised 0.4 percent gain in October.

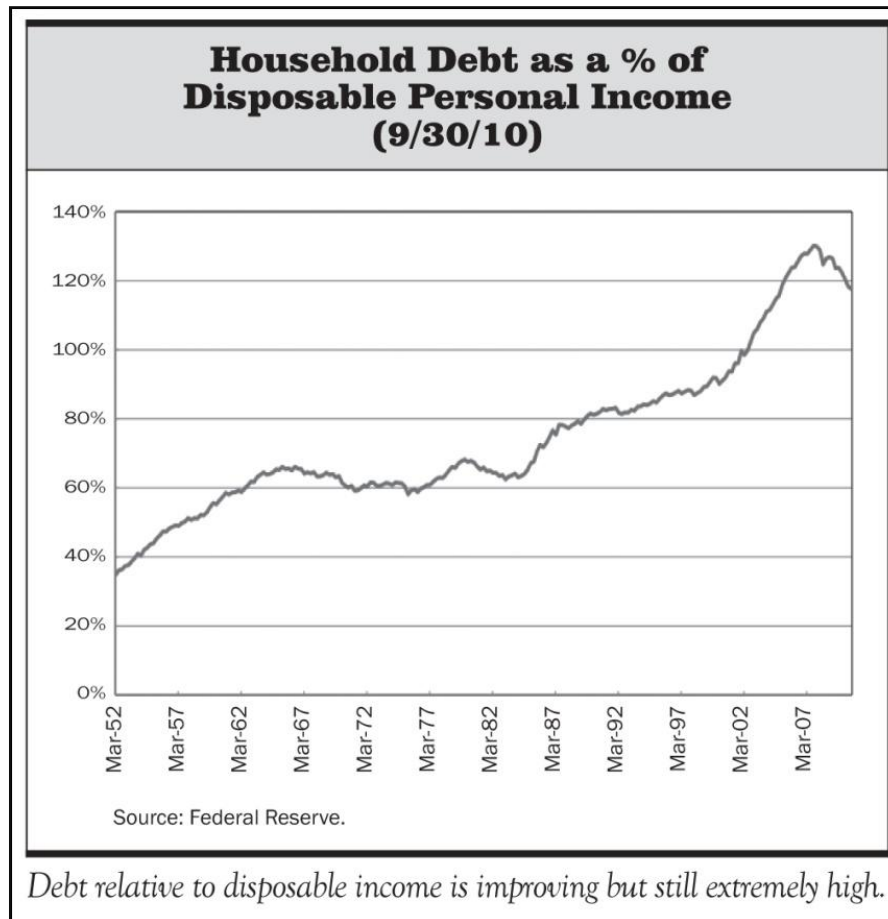
Low Inflation: Finally, we continue to believe that inflation is unlikely to spike dangerously higher in the near term in the developed world given excess labor and manufacturing capacity and anemic demand.

As a result of these positive attributes, many market commentators have forecast more good results from the stock markets, ranging from a 9% to an 18% 2011 U.S. stock return based on earnings forecasts and economic improvements. Though the pessimistic side of us yells a warning, we always consider these shorter term positives carefully and have your portfolios positioned to grow solidly when the stock markets are positive.

Pessimist

After two excellent years of returns, several worries are still lurking, frequently in the background but occasionally rearing their ugly heads and causing the markets to sell off. The following are the major issues that keep the pessimistic side of us awake.

Household Debt Levels: This is an ongoing major concern due to the high overall level of household debt. The income comparison is important because it indicates the long-term ability of households to pay down their liabilities. (Compared to assets, debt levels have improved but still remain high relative to long-term history, with household wealth still 17% below its 2007 peak.) Despite a meaningful reduction, household debt as a percentage of income remains far higher than the prior five decades. Bringing debt back down to manageable levels after decades of debt expansion can't be expected to happen quickly.

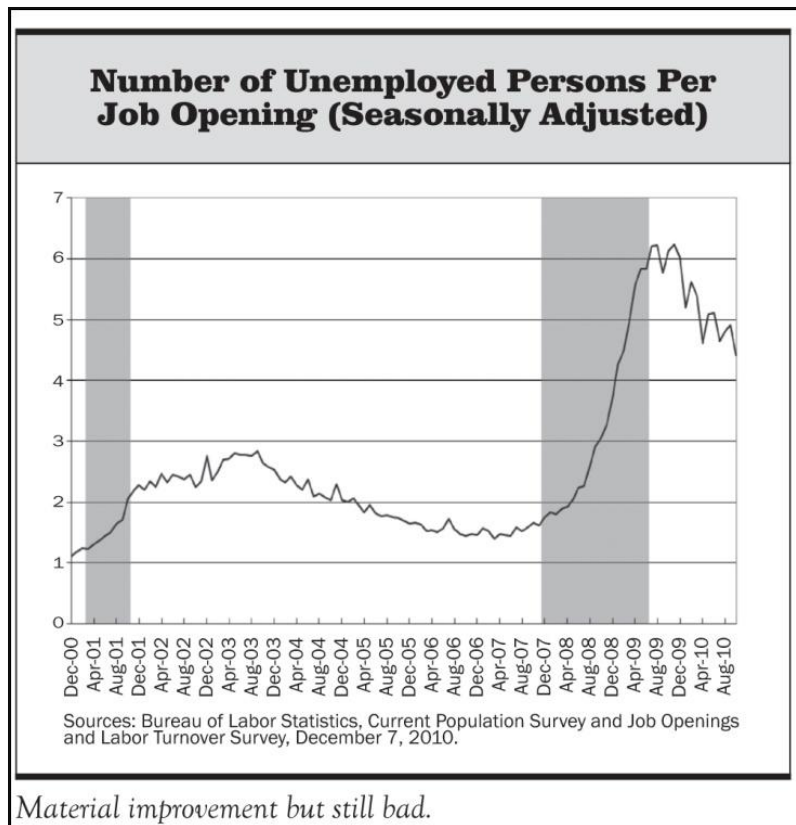


The Weak Labor Market:

Jobless claims for unemployment insurance are declining, which strongly suggests that layoffs have peaked. That's good. But job growth is still anemic. Since the job market bottomed in December 2009, about 86,500 jobs have been created on average per month. Over the three months through this last November the average has been even lower at just over 60,000. This compares to about 100,000 jobs needed per month just to keep pace with growth in the labor force. And remember that 8.4 million jobs were lost in the recession. There are 4.2 job seekers per available job opening, which is down from over six, but still an abnormally high level. And of the total unemployed, 42% have been out of work for at least 27 weeks. This measure of the long-term unemployed is slightly off its highs but remains far

higher than at any other time since the start of the data series in the mid-1960s. In short, the labor market is recovering but it's a wimpy recovery compared to past expansions and in light of the number of jobs lost. It will get better. There are multiple indicators that suggest the job market should strengthen. But we have a long way to go to bring employment back up to acceptable levels. It will take years to accomplish that, and while the improvement will help growth, it is unlikely to be robust enough to support a strong or quick recovery in income, the housing market, or domestic consumption.

The Housing Market: After showing some strength in late 2009 and early 2010 largely due to the homebuyer tax credit, the housing market is showing weakness again. If house prices decline too much (analysts say around 10% is a danger point), banks would have to raise additional capital which would negatively impact the availability of credit. In recent months home prices have slid backwards again and the declines are spreading to more markets. Looking ahead, despite hugely improved affordability, there are several reasons to be concerned about potential further declines in home prices. According to industry data provider CoreLogic, as of the end of September, 23% of all homes with mortgages had negative equity—in other words they owed more than the house was worth. This amounts to 10.8 million homes. Of these, more than 40% (over four million) had negative equity of at least 25%. Negative equity correlates strongly with defaults and foreclosures so this data suggests that foreclosures will remain high for some time, and prices may be under further pressure to fall nationwide by another 5% to 10%. Clearly, there are pockets of stronger demand, especially where schools are attractive and unemployment levels reasonable.

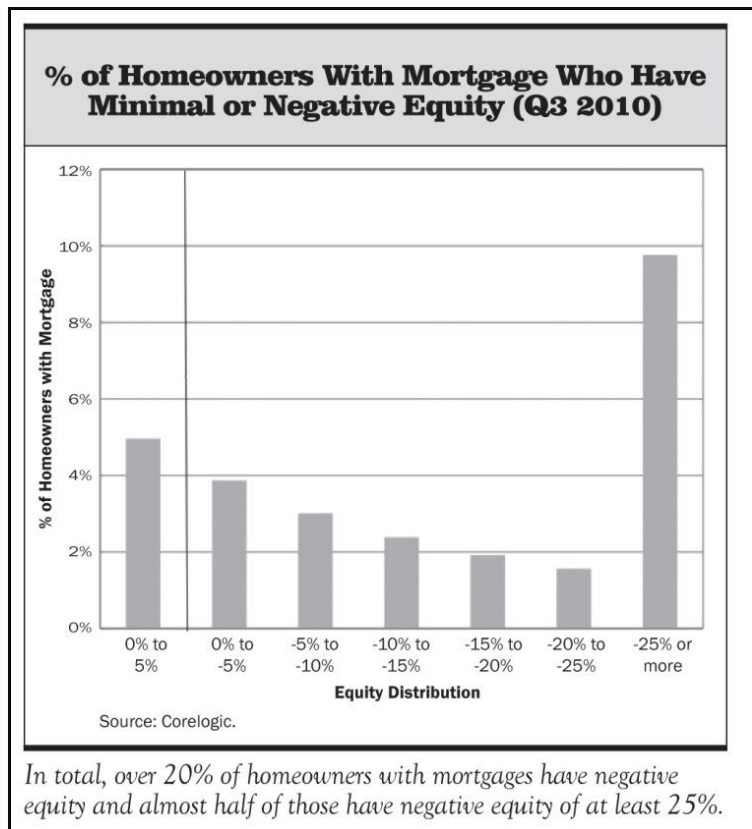


Home prices are driven by supply and demand. On the supply side the number of homes for sale compared to average monthly sales has spiked up again and is near peak levels, with the actual number varying between 12 and 13 months. That is about twice the normal level. Additionally, millions of houses are either in foreclosure or likely to be foreclosed, which augments the future supply of existing homes. Based on CoreLogic's estimates, the total inventory-to-sales measures including "shadow" inventory is at an alarming 23 months. While the sales numbers are low partly due to bad winter weather, this existing home supply suggests that house prices will face further price pressure nationally.

European and American fiscal issues: Much like the arcade game "whack a mole," European debt problems pop up, are "hammered down" by the

promise of loan guarantees and actual bond buying, only to pop up again later. As debt worries persist over time, the cost of borrowing increases, which then further worsens the position of over-indebted countries like Greece, Portugal, Ireland and Spain. We expect at some point the combination of austerity moves and loan guarantees to settle the markets, but there is a decent probability that one or more of the weakest countries may be forced to leave the Eurozone. Not only would that uncertainty create market questions, but so will the process of the U.S. facing its own fiscal and accumulated deficits. States and municipalities are already facing extremely difficult choices; at some point, market participants will require more effective actions from our national political leaders as well. The timing is unknown, but as the President's deficit commission noted, difficult choices are an inevitable aspect of our economic future, and potentially sooner than we think

As a result of these pessimistic concerns, we have been controlling the risk in your portfolio. Many of our economic concerns from the past two years still linger, and we remain vigilant to increasing interest rates in the US as the inevitable tough austerity measures for the US are put off for yet another year. We have shortened the maturity of our fixed income in the most conservative portfolios and continued to diversify in all portfolios. Managers like the JP Morgan Strategic Income Fund seek to provide positive returns in all markets and are positioned to do just that. Foreign fixed income funds like Templeton, Loomis Sayles and Pimco utilize various currency and country tactics to produce returns less correlated to U.S. interest rates. Our three alternative managers were funded partly from a reduction to fixed income, which will continue to stabilize the portfolios without the losses that would come if rates increase.





Stock returns in 2010 were stronger than we thought was likely. However, despite being underweighted to stocks, we have done well this last year as our tactical moves to overweight emerging market stocks, our allocation to high-yield bonds and emerging market local currency bonds, our use of flexible fixed-income funds, and the performance of our active managers have, collectively, added significant value. This added value means that we have been able to outperform our index benchmarks while taking less risk.

We think there is a reasonable possibility that low interest rates and economic improvement will continue to lure investors back into taking more risk. While the US economy faces challenges, those with jobs and homes are benefitting from lower interest rates and increasing incomes. We expect a decent return from stocks in 2011 in the 8-12% range, more than we expected a year ago and higher than we anticipate from bonds.

New Team Members

We are excited to announce a new role at Opes as we added our first Real Estate Advisor, Carlos Valdivia. Carlos is bringing his considerable talents and experience to augment Opes' real estate financing knowledge to help our clients with their thinking and actions around investment real estate. Clients who have made, or are considering making, significant outlays for investment real estate can benefit from Carlos' analysis and advice. Such investments require careful initial and ongoing risk and return analysis as standalone investments and as part of an overall investment structure. We want to help our clients make good decisions in the acquisition, maintenance and sale of their investment real estate. Your advisor and Carlos will be contacting you if you have previously expressed a desire for help on your current or prospective real estate; if you would like to have a conversation with Carlos, please feel free to call your advisor.

We also have a new Client Service Associate, Cristina Holloway. Cristina will be working with Dave and Kenji to assist clients with their client service needs and helping new clients transition to Opes. Cristina has over twenty years of experience in various client service roles, including securities and investment work.

Best regards,

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Vice President, Investment and Client Services

Attached are your portfolio statements and a copy of our Privacy Statement. We urge you to compare the comprehensive reports we provide with your Schwab statements. The custodian for your accounts is Charles Schwab, 3133 E Camelback Road Phoenix, AZ 85016.