

Market & Economy Summary



A Quarterly Newsletter | 3rd Quarter | 2011

3Q11 Benchmark Returns

	3Q	YTD
Equities		
S&P 500 Total Return Index	-14.1%	-9.0%
Russell Index 1000 w/ Dividend	-15.0%	-9.6%
Russell Index 2000 w/ Dividend	-22.5%	-17.7%
Russell Index 3000 w/ Dividend	-15.6%	-10.2%
MSCI Developed EAFE (USD)	-20.9%	-18.5%
MSCI Emerging Markets (USD)	-24.3%	-24.6%

Alternatives

CS Tremont Hedge Fund Index	-4.8%	-2.5%
DJ Wilshire Global REIT Index	-15.9%	-9.0%
CS Tremont Hedge Mgd Fut. Index	4.2%	-0.2%
S&P GSSI Natural Resources Index	-24.1%	-20.3%
Barclays High Yield Bond Index	-6.2%	-1.5%

Fixed Income

90 Day Treasury Bill	0.0%	0.0%
Barclays Muni Bond Index	3.8%	8.3%
Barclays Aggregate Bond Index	3.7%	6.5%
Barclays Global Bond Index	0.0%	4.7%

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Executive Summary Review and Outlook

Economic Factors That Affected the Markets

POSITIVES	NEUTRAL	NEGATIVES
Corporate Earnings	Inflation	Geopolitics
Monetary Policy	Energy Prices	Fiscal Policy
Valuations	Credit Conditions	Economic Activity

"IWM Outlook" - Economy / Markets

- ▶ The economic recovery remains fragile. Issues still remain: unemployment, government stimulus spending, and Federal Reserve's intervention
- ▶ U.S. federal, state and local governments continue to struggle with deficits
- ▶ Increasing signs of inflation possibly in near term (1-2 years)
- ▶ Economic growth in developing economies will overtake developed economies
- ▶ U.S. stock market valuation metrics suggest stocks are moderately overvalued and have recently been close to a "Reduce Equities" signal
- ▶ Long-term interest rates should continue to rise over the near term (1-2 years)
- ▶ Short-term rates will stay low for the near future
- ▶ Europe will need a high degree of policy and fiscal cooperation in order to avoid a major financial crisis. In addition, a potential slowdown in China warrants attention.

Portfolio Construction Themes

- ▶ We continue investing more globally, in both stocks and bond
- ▶ We continue to allocate monies to alternative investments
- ▶ Inflation protected bonds continue to be a core component of our bond portfolios
- ▶ We have lower allocations to "risk assets" for most clients
- ▶ We continue to review our bond portfolios for interest rate sensitivity
- ▶ Use of cash and cash equivalents have appeal for future deployment
- ▶ Geopolitical events warrant close monitoring, but no action at this time
- ▶ We continue to monitor potential money market risks due to exposure to European banks. Clients with large balances in money markets may want to consider using safer alternatives

Indicators - Technical/ Fundamental

- ▶ "Circuit Breaker" risk reduction strategy status = Reduce Equities
- ▶ P/E 10 - Market Valuation Measure = Above Average @ 19.5
- ▶ Current Recommended withdrawal rates:
 - 20% Equity Model 3.20%
 - 40% Equity Model 3.90%
 - 50% Equity Model 4.20%
 - 60% Equity Model 4.40%

Disclosure:

1. This presentation may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as “believe,” “estimate,” “anticipate,” “may,” “will,” “should,” and “expect”). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.
2. Historical performance is not indicative of any specific investment or future results. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor.
3. Investment in securities involves the risk of loss of interest and/or initial investment capital.
4. Nothing in this letter is intended to be or should be construed as individualized investment advice. All content is of a general nature. Individual investors should consult their investment adviser, accountant, and/or attorney for specifically tailored advice.
5. The following Indexes /Benchmarks are used in this newsletter:
 - **S&P 500 TOTAL RETURN INDEX** - The S & P 500 is market-value weighted index; each stock's weight in the index is proportionate to its market value. The 500 stock are chosen for market size, liquidity, and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is being used as a proxy for the stock market.
 - **RUSSELL INDEX 1000 WITH/DIV**- Represents 1,000 largest companies in the Russell 3000 Index, which represents about 92% of the Russell 3000 index.
 - **RUSSELL INDEX 2000 WITH/DIV**- Represents the 2,000 smallest companies in the Russell 3000 Index, which represents about 92% of the Russell 3000 index.
 - **RUSSELL INDEX 3000 WITH/DIV**- This index measures the performance of the 3,000 largest US companies, based on total market capitalization, which represents approximately 98% of the investable US market.
 - **MSCI DEVELOPED EAFE(USD)**- This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 developed markets in the world, excluding the US and Canada.
 - **MSCI EMERGING EM (EMERGING MKTS) (USD)**- A broad based free-adjusted index that is designed to measure global emerging market equity performance in 26 countries.
 - ***CS TREMONT HEDGE FUND INDEX**- The index measures the Hedge Fund of Funds that invest with multiple managers in various hedge fund alternative strategies.
 - **DJ WILSHIRE GLOBAL REIT INDEX DWGRT**- A broad measure of publicly traded real estate equity securities, consisting of REIT's, REOCs and partnerships that own / operate commercial properties.
 - ***CS TREMONT HEDGE MANAGED FUTURES INDEX**- The index measures the performance of several hedge funds. It includes both open and closed funds located in the U.S. and offshore, but excludes funds of funds.
 - **S&P GSSI NATURAL RESOURCES IDX NATRL RES TR**- The Index seeks investment results that correspond generally to the price and yield performance of natural resource-related stocks.
 - **BARCLAYS CAPITAL HIGH YIELD BOND INDEX US CP HI YIELD**- The index includes publicly issued U.S. dollar denominated, non-investment grade, fixed-rate, taxable corporate bonds that have a remaining maturity of at least one year, regardless of optionality, are rated high-yield (Ba1/BB+/BB+ or below) using the middle rating of Moody's, S&P, and Fitch, respectively (before July 1, 2005, the lower of Moody's and S&P was used), and have \$600 million or more of outstanding face value.
 - **90 DAY TREASURY BILL**- Three-month T-bills are government-backed short-term investments considered to be risk-free and as good as cash because the maturity is only three months.
 - **BARCLAYS CAPITAL MUNI BOND INDEX COMPOSITE INDEX**- An index of investment grade tax exempt municipal bonds.
 - **BARCLAYS CAPITAL AGGREGATE BOND COMPOSITE INDEX**- An index of investment grade bonds consisting of three Barclays indices, the Gov/Credit index, the Mortgage-Backed index and the Asset-Backed index.
 - **BARCLAYS CAPITAL GLOBAL BOND INDEX GOVT EXCL U S**- The Global Aggregate Index provides a broad-based measure of the global investment grade fixed-rate debt markets and excludes U.S. Government bonds.
 - **CONSUMER PRICE INDEX**- All Urban Consumers (CPI-U) is a measurement of inflation in the United States. The data is provided by the U.S. Dept of Labor.