



# HAWK 100

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Quarterly Update

First Quarter 2009

## Dear Hawk100 Member.

Welcome to your Wealth Alignment Report, a discussion and presentation of your accounts to which you have entrusted Hawk100 with discretionary trading authority. Contained in your Wealth Alignment Report is familiar information and new presentations. In the spirit of continuous improvement, Hawk100 adapted its reporting to improve clarity for you. I welcome your comments and feedback.

By now, the transition of your accounts to Hawk100 should be completed. Fidelity should have successfully closed your old accounts and transferred all assets into your new accounts. If you continue receiving correspondence reflecting our old relationship, please contact me immediately so I can resolve the situation with Fidelity. I sincerely appreciate your patience while Hawk100 diligently coordinated your reporting together with Fidelity.

To provide context to your first quarter Wealth Alignment Report, consider two major themes that cast a dire tone for financial markets during the quarter: political change and populist vitriol.

Political change certainly arrived with President Barack Obama and the new Congress. A flurry of policies intended to stimulate the economy flooded the world with liquidity and spending commitments. Investors (or perhaps more appropriately, sellers) sent a clear signal to Washington that the policies could harm an already fragile economy. Stocks lost 27.6%, in a matter of weeks through March 9, while government tightened intervention and control of the private sector. Hawk100 revised its forecasts for higher long-run inflation and a prolonged economic recession coinciding with the eventual withdrawal of any fiscal stimulus. With striking resemblance to 1933, government intervention has become a prominent force potentially reversing decades of deregulation and prosperity.

Politically charged populist vitriol increased scorn on the entire financial sector. The deplorable Madoff and Stanford scandals and the AIG bonuses paid from TARP (the taxpayer-funded "Troubled Asset Relief Program") money touched off heated attacks on financiers. Making matters worse, Congress attempted to slap extreme taxes and more intense regulations on already strained institutions.

Hawk100 strongly endorses the ethics that would have prevented such scandals. In fact this weekend in Orlando, I will have the pleasure of personally awarding Harry Markopolos, CFA who blew the whistle on Madoff, for his volunteerism and leadership on behalf of

CFA Institute and its member Societies. On the other hand in defense of AIG's employees, their bonuses were specifically written into the TARP legislation and appear to be legal and contractually binding. Further, those employees were part of the resolution, not creation, of AIG's problems.

Hawk100 has considered asset allocation to be the primary factor driving investment returns and prudently managed your Portfolio allocation according to the policy guidelines in your Wealth Alignment Plan (an enhanced version of your previously named, Personal Investment Policy). Hawk100 employed active asset allocation steps to align your wealth, in light of the economic and market conditions described to enhance your Portfolio safety and preserve capital.

Selection of securities in which to invest has been a crucial element to Hawk100 efforts to align your wealth with your life. Hawk100 has selected securities through rigorous measurement and evaluation of each security while maintaining diverse industry sector exposures. The Hawk100 investment process has sought securities that offer reasonable returns at attractive values using an investment style generally called "value." Empirical evidence has supported Hawk100's confidence in the value style despite losses during the credit crisis that challenged Hawk100.

In the first quarter, the value style significantly lagged its growth corollary. The S&P 500 Value Index declined 17.0% losing 10.4% more than the growth index. Technology, the sector most often associated with the growth style was the only sector to produce positive returns during the quarter having advanced 1.4%. Finance, typically a value sector, lost 29.6%. Expecting a deepening economic recession, Hawk100 overweighted staples which tend to offer stable returns during economic turmoil and underweighted discretionary which tends to be more economically cyclical. On deeply depressed values, Hawk100 maintained overweight position in financials but intended to pare this exposure on intermittent sector advances.

Among selected securities, Hawk100 provided mixed results under challenging conditions. Inflation Indexed Treasury Notes improved performance during the quarter. With flooding central bank liquidity, Hawk100 expected increased inflationary pressures and these securities that adjust their par value in line with consumer inflation performed well. In contrast, iShares S&P 500 / Large decreased per-

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Information herein is based on sources believed to be reliable but which have not been verified for accuracy. Conclusions and views expressed reflect the opinions of the author and are subject to change without notice.

This report is neither an offer nor a solicitation with regard to the purchase or sale of securities. Any portfolio actions described are for illustration only respecting general guidance under circumstances then prevailing. Contact Hawk100 to discuss how the concepts discussed herein may affect the alignment of your wealth with your life.

Your wealth.  
Your life.  
Aligned.



formance consistent with the overall market.

Hawk100 carefully considered fundamental valuation factors when managing your Portfolio. In so doing, Hawk100 sought income securities that offer a high yield relative to a low duration. Yield represents the income generated from securities. Duration represents the degree of price sensitivity to changing yields and approximates the percentage change in bond price for a 1% change in yields. When yields rise, bond prices decline and vice versa. Yields closed the quarter at historically low rates, and Hawk100 expected yields to rise and thus, bond prices to fall. Consistent with this theme, Hawk100 pursued shorter duration to mitigate potential price declines.

Valuation has been the cornerstone of the Hawk100 security selection model, and Hawk100 primarily used price to cash flow to gauge equity values. Cash flows have been a reliable measure of enterprise economic returns whereas earnings could be susceptible to management manipulation. Hawk100 preferred to hold securities with low prices relative to cash flows since those securities have tended to improve risk adjusted returns over the long run.

Thank you for being a loyal Hawk100 Member. I hope your delight in Membership matches mine in the opportunity to align your wealth with your life.

Warmest regards,  
Richard Clemens, CFA  
President  
Hawk100

Your wealth.  
Your life.  
Aligned.



