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HAWK 100

Quarterly Update **Third Quarter 2010**

Dear Hawk100 Member.

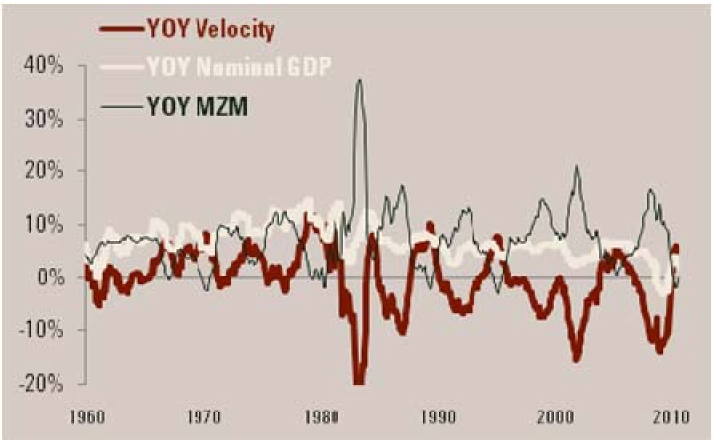
Hawk100 sends its warmest greetings to you and your family. We hope your home has been as warm as the weather has been here. Summer has lingered into October in central Ohio, and sunshine has not yet relented to the gray skies of winter. The unseasonable warmth sets our thoughts wandering to child's play, particularly that which occurs on a teeter totter or seesaw.

As usual, that got us to thinking on financial markets and their recent up and down performance. Financial markets during the third quarter were as spontaneous as a child, as oscillating as a seesaw, and as gripping as a Halloween story. Following those thoughts, this insight and our advice sought to calm an otherwise unsettling quarter by focusing on long-term themes then aligning your wealth according to your best advantage. It's a bouncy ride so hold on tight!

From our vantage, three significant stories of the quarter set the seesaw swinging. President Obama's July 21 signature on the Dodd-Frank Wall Street Reform and Consumer Protection Act helped raise investor confidence. The US Federal Reserve's August 10 announcement that it would resume quantitative easing sent stocks spiraling down for much of August. The US combat troops' successful withdrawal from Iraq lifted a heavy burden from US shoulders.

As we wrote in the June 2010 HawkTalon, "Frankly, Dodd-Frank is a Zero," qualities of the Wall Street Reform and Consumer Protection Act are expressly the potential reformation of Wall Street and the protection of consumers. Among the many causes of the financial crisis, as is nearly always the case, greed and excessive risk was rampant between financial service providers and consumers alike. Key terms of the Act reign-in provider risks and constrain consumer credit. However, the Act veils a progression toward increased government intervention into private markets which may prevent pain of the swiftest downswings. However, intervention would often hinder economies while diminishing the delight of upswings. On balance like a seesaw, the Act offset each benefit with a cost.

Gripping for an up and down ride.



Source US Federal Reserve, US Bureau of Economic Analysis.

Likewise, as discussed in the August 2010 HawkTalon, "Banking on Income Irregularities," the Fed resumption of quantitative easing unintentionally elevated concern in the financial system. Perpetually low cost of funds has contributed to constrained credit. Reduced credit has capped aggregate money despite easy Fed monetary policy. Monetarists have been troubled by a contracting monetary base. "Money with zero maturity" (MZM) has declined year-over-year for the first time since the Fed tightened in 1994. MZM includes: currency, travelers checks, checkable deposits, demand deposits, savings deposits, and institutional money funds. Inflationary pressures could mount if money velocity (gross domestic product (GDP) divided by aggregate money supply) continues on the recent path predicated on MZM. Note, velocity has tracked lower when measured on M2, an alternate measure of money, because M2 has expanded more rapidly than GDP.

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Aligned.

The troop withdrawal from Iraq sent a positive vibe through markets. Freeing $3 trillion dollars, a Washington Post estimate of the war's cost, from the fiscal budget enabled increased domestic investment and slowed the rate at which the treasury debt becomes excessively burdensome. As of October 12, the US Treasury reported public debt of $13.6 trillion, 103% of GDP. Piling annual deficits in excess of $1 trillion has sounded alarms among the most casual observer. At this rate, the seesaw has given rise to the tea party movement.

Financial markets generally, and the US stock market notably, bounced up and down during the third quarter. After a rough spring, stocks embarked on a monthly oscillation: up, down, up, 7.0%, - 4.5%, and 8.9%, from July to September, sequentially. Bonds rode the other side of the seesaw, though with typically muted amplitude. Bonds started flat, then moved up, then down, 0.5%, 2.9%, - 0.2%, as measured by the Ryan Labs Treasury Index.

Hawk100 portfolios delivered stability throughout the rise and fall. Quarter return and net return for 2010 to date was consistent with expectations. US and international stocks have risen just 3.9% and 1.1% during the year, respectively. Bonds have raced ahead 10.9% and 10.5% for Treasuries and corporates, respectively. The 10-year treasury yield has fallen below 2.5%, approaching lows from December 2008 and January 2009.

Our strategy to seek diversification within member portfolios predictably produced positive and negative results, again following the theme of a seesaw. Securities which delivered the best positive impact for Hawk100 members, accounting for the size of investment in addition to the rate of return from that investment, were international equities led by those with emerging market exposure. International markets returned to favor in the face of increased clarity with respect to the fiscal situation in Europe. Just considering the individual securities' rates of return, commodities rose generally during the quarter and investment in agriculture commodities rose remarkably.

Daily closing prices June 30 — October 13, 2010. Source Comstock, Inc.

On the opposite side, investments that derive their prices from options volatility reduced portfolio performance. Although month-to-month variability in stock returns distinguished the third quarter, volatility expectations in options markets declined from the extremes of the May "flash crash." Nonetheless, Hawk100 advocates positions in options and volatility-based investments where suitable to increase the predictability of long-run return expectations for a portfolio as a whole.

On balance, positives outweighed negatives this quarter and Hawk100 members rode the rising side of the seesaw.

Thank you for entrusting Hawk100 as your wealth advisor. After reviewing your Wealth Alignment Report, please contact your wealth advisor, at 614.791.HAWK or info@hawk100.com, to arrange a personal consultation.

Warmest regards,

Hawk100
Richard Clemens, CFA
President

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