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HAWK 100

Dear Hawk100 Member.

Happy new year from your wealth advisor and Hawk100! We send warm wishes to you to see 2011 with renewed purpose, recommitment to your values, realized aspirations, and reached goals.

Hawk100 is pursuing similar spirit while seeking to meet our promises to you and our other members. As its president, I renew the Hawk100 purpose, to align your wealth with your life. I recommit the firm to values of competence, care, and charity. Hawk100 aspires to continuously improve competence of process and professional capability. Hawk100 aspires to a higher standard of care representative of transparency, loyalty, prudence, and diligence. Hawk100 aspires to charity on the faith that service in the interest of others is a better way.

We offer this retrospective to focus on political, economic and market changes that may affect the alignment of your wealth with your life.

Politics. 2010 was a sea change for politics in America and abroad. The US year began with passage of two divisive Acts of Congress and ended with an Act of cooperation. Sandwiched between was an Act that directly affects your relationship with your wealth advisor.

The Patient Protection and Affordable Care and Health Care and Education Affordability Reconciliation Acts required a remarkable effort by Democrats to pass in March despite holding the presidency and sizeable majorities in both houses of Congress. The "deem and pass" tactic used to circumvent congressional rules moved the public to oust many representatives and more than a handful of senators during midterm elections. Obamacare probably reshaped the American relationship with government, employers, and health providers. We say "probably" because there remain serious challenges to Obamacare. The new Congress is less willing to fund the Acts if not attempt to repeal them. Also, a series of courtroom battles contest the constitutionality of Obamacare provisions.

In December, the Tax Relief, Unemployment Insurance Reauthorization, and Jobs Creation Act extended tax rates for individuals through 2012 and enabled certain tax breaks including a one-year reduction in employee FICA tax and expanded business investment credits. The Tax Act deferred what would have been a burdensome tax increase on individuals. Unfortunately, the Tax Act introduces more complexity to an already overburdened revenue code. To illustrate, the Senate uses 177 pages in its technical explanation to present a Tax Act that purportedly extends current tax law.

July brought the brazenly named "Dodd Frank Act" (officially Wall Street Reform and Consumer Protection Act). The Dodd Frank Act attempts to address concerns that had precipitated the 2007—09 financial crisis and tightens regulations on investment advisors and private equity investors. Provisions designed to reduce systemic risks seem instead to preserve those risks with respect to the "too big to fail" concept including mortgagees Fannie Mae and Freddie Mac. Investment advisors are required to make new disclosures on a revised Form ADV registration statement. Hawk100 believes it has been making the newly required disclosures and is currently drafting a new ADV which will be made available to members in March. The Dodd Frank Act changed the definition of "accredited investor" used to qualify investors for private equity offerings. Accredited investor still includes individuals with net worth in excess of $1 million but that amount must now exclude the individual's primary residence.

The European response to its own, ongoing, financial crisis is among 2010's most compelling stories. Riots in Athens, Rome, Paris, and London have met leaders attempting to usher in a new era of fiscal prudence. Austerity measures are painfully necessary to restore long-run stability.

Brazil's moderately left former President Lula da Silva term in office ended January 1, 2011. He was quoted to say, "it is Brazil's time." So in its time, the world is watching Dilma Rousseff ascend to the presidency. The Economist characterizes Ms. Rousseff as "a political outsider." She will be challenged to keep Brazil on track toward global prominence and to allay fears of rising inflation. Hyper-inflation has been history's common closing chapter on many failed Latin regimes. Her deft execution of pro-growth policies while building on lessons from earlier chapters of history will determine whether Brazil remains a solid "BRIC" in the years following Lula.

Economics. Global challenges remain for many developed economies while emerging and frontier economies offer risky opportunity.

Pressure toward a double-dip "W" recession has eased in the US, but much remains to accomplish. Resolving the tax code defers challenges from uncertainty and pending rate hikes. Yet, governments must resolve their balance sheets (i.e., unfunded liabilities) and income statements (i.e., fiscal deficits) in order to clear the way forward.

Your wealth.
Your life.
Aligned.

SOURCE: Federal Reserve

The charts above present favorable economic trends for manufacturing. Economically cyclical industrial production has risen nearly every month since July 2009. Growing capacity indicates investment in capital assets. Utilization rates have held near 75%, below the 85% level that the Fed defines as inflationary. Equities usually have highly positive correlation with the utilization rate.

Corporate balance sheets are relatively strong. Hawk100 sampled financial reports for 458 publicly traded entities. We compared the most recently reported balance sheet assets and income statement expenses for the periods (quarter and fiscal year) then ended. One notable finding is that overall cash on hand relative to annual expenses improved by 23%. Corporate balance sheets have strengthened.

Strength cannot be used to describe the exceptionally large Federal Reserve and US Treasury balance sheets. We are hawkish, preferring that Fed Chair Bernanke and Treasurer Geithner fend off the fate of inflation. Free reserves over $900 billion, $600 billion in QE2 folly, and public debt over $14 trillion leaves us lacking confidence in that ability.

Markets. Driving from political and economic developments, markets for fixed income securities, domestic and international equities and commodities experienced seismic shifts in the quarter.

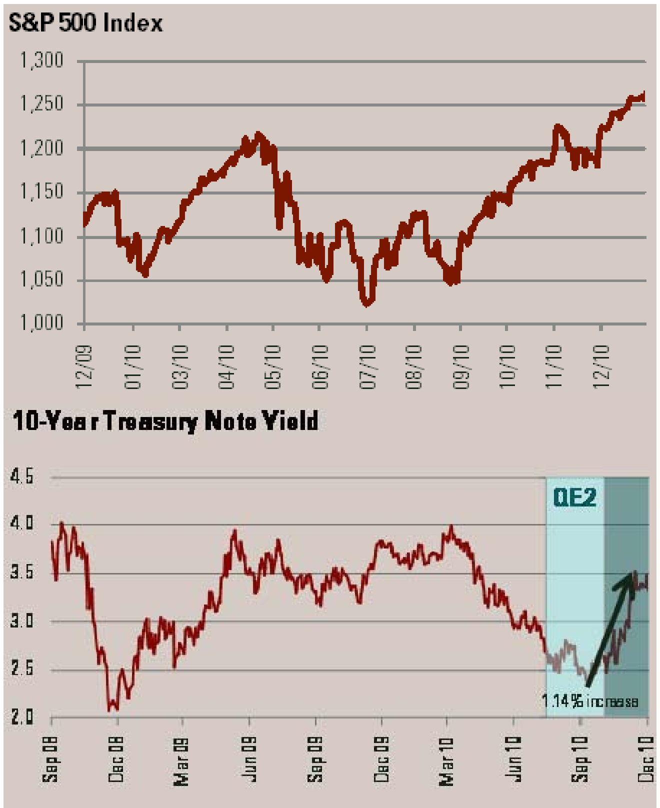
Vigilance and prudence led to a poor quarter for bond markets. Bond vigilantes punished treasuries on news of the Fed's QE2 policy (highlighted at right), spreading credit risks from sovereign and municipal governments, and elections that placed Congress under Republican leaders who promise to be fiscally tight. Prudent investors sold bonds in favor of equities. The 10-year treasury yield rose—0.8% for the quarter and 1.14% from trough to peak—and closed at 3.31%.

In implementing your Wealth Alignment Plan, Hawk100 holds the following tactical opinions regarding fixed income securities. It is targeting investment levels in government securities at the minimum threshold allowed in favor of corporate and foreign securities. Hawk100's prevailing strategy is to target duration in the 3—5 year range using inflation protected investments where prudent.

The aging bull in US equity markets has become remarkably resilient. The S&P 500 Index, depicted for the year in the chart at left, has reached new highs at the close of 2010. The index closed at 1,258 – up 143 points for 2010. The quarter return of 10.7% brings its 2010 return to 15.1%. Stocks advanced in earnest over the last quarter on improving economics which temporarily eased the risk of a double dip recession and on improving expectations for tax rates.

Hawk100 continues to implement a diversified approach to industry sectors while currently targeting investment levels at the low end of allowable ranges for large and small US equities. Our current opinion favors larger, value-focused, companies for inclusion in your portfolio.

Around the world, emerging opportunities exist for capital market investment in developing countries. Europe's latest financial crisis has investors repositioning international equity positions. We believe that investor fear opens opportunity for those with capital. For now, those opportunities are hard to identify in continental Europe, but elsewhere



SOURCE: Interactive Data Corporation.

they are more obvious. Latin America offers stark contrast. Responses to earthquakes last January and February showed how divergently Latin economies behave. Haiti's quake still attracts media focus, but capital has evaporated from ineffective aid deployment. Capital is often lost when directed to such nations. Though Chile's quake was significantly stronger, it suffered relatively little damage as evidence of strength through effective capital investment and infrastructure.

Hawk100's current tactical strategy calls for maintaining target investment exposure internationally. We favor emerging and frontier markets for assets invested overseas. Hawk100 expects improved portfolio contributions from economies detached from risks currently facing mature economies.

Purposeful portfolio. Hawk100 remains committed to professionally manage and efficiently diversify your Wealth Alignment Plan. We advocate purposeful portfolio strategies such that each investment should meet a stated purpose in your portfolio. In that manner, we modified descriptions of each asset category and renamed each to clearly align with their purpose and portfolio action as "preserve," "provide," "promote," and "protect."

To **preserve** the principal value of your portfolio is our foremost objective. As set forth in your Wealth Alignment Plan, Hawk100 seeks to preserve your portfolio principal with assets in cash equivalents, such as money market funds, the share price of which is intended to remain constant and the yield of which is comparable with the current risk-free rate of return.

To **provide** income and cash flow that supports your life and enables reinvestment according to your Wealth Alignment Plan is a prime purpose of your total return objective. In managing to provide for you, Hawk100 focuses on four factors: (1) duration, (2) term structure, (3) credit risk, and (4) inflation. In so doing, Hawk100 seeks to maximize the relationship of income yield to duration risk.

To **promote** and grow your investment principal increases your purchase power in satisfaction of your wealth objectives. Using an enhanced index strategy focused on diversification, Hawk100 seeks to maximize the expected investment return relative to expected volatility of investment returns, suitably aligned with your objectives and constraints. A fundamental metric to evaluate this relationship is comparing the price:earnings ratio to long-run growth expected for each security and for the portfolio.

To **protect** your portfolio against sudden adverse financial market conditions, Hawk100 may seek alternative investments that further enhance portfolio diversification. Securities that align with the protect purpose include commodities, private equity, and real estate.

Thank you for entrusting Hawk100 as your wealth advisor. Please feel free to contact us as you wish.

Warmest regards,

Hawk100
Richard Clemens, CFA
President

Your wealth.
Your life.
Aligned.