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HawkLetter

Fourth Quarter 2011

Dear Hawk100 Member.

Your Hawk100 wealth advisor wishes you and your family a blessed, prosperous, healthy, and happy 2012. We would like to take a moment to reflect on events and results from 2011 and the last quarter. Please refer also to your Wealth Alignment Report tables.

2011 was interesting for financial markets. We witnessed unexpected leadership changes for a string of nations, and we watched events unfold with significant financial impact.

Spring arrived early across the Middle East and North African desert. Populist uprisings started in early January in Tunisia and toppled long-tenured President Zine El Abidine Ben Ali. Egyptians followed and forced Hosni Mubarak to resign his post atop the Nile River and Suez Canal in February. During May, a team of US Navy Seals ended Osama bin Laden's Al Qaeda leadership. In August, unrepentant Moammar Gadhafi abandoned his position atop Libya. He was later brutally shot and killed by rebels. In November, George Papandeu and Silvio Berlusconi sequentially resigned from Greece and Italy, respectively, after making both nations borrow unconscionable sums. Finally, in December Kim Jong Il fell ill and died. His heir and son, "Supreme Leader" Kim Jong Un, is already punishing the "Democratic People" of his "Republic of Korea" (another "state up north" using terms familiar to fans of The Ohio State University). He has charged some for failing to authentically wail while pretending to mourn his late father. The series of charts we present below mark each of these events.

March 11, an earthquake centered just off Japan's Northeast coast pushed an enormous wave upon Japan's shores and caused unimaginable loss of life and property. The aftershock took the uncharacteristic form of the Fukushima Daiichi nuclear power plant in various stages of meltdown. The International Atomic Energy Agency in its last formal status briefing on Fukushima June 2 said, "Overall, the situation . . . remains very serious." By September 12, the situation improved enough that IAEA Director General Yukiya Amano welcomed the IAEA board by saying "the reactors are essentially stable." He then introduced *Draft Safety Requirements: Radiation Protection and Safety of Radiation Sources: International Basic Safety Standards and Nuclear Safety Action Plan*. Reliable nuclear safety is tantamount to energy security with the confluence of a skeptical post-Fukushima public and a volatile MENA. Hawk100 applauds and encourages developing nuclear production capabilities with improved safety. The Japan earthquake and tsunami is event "A" on our chart series.

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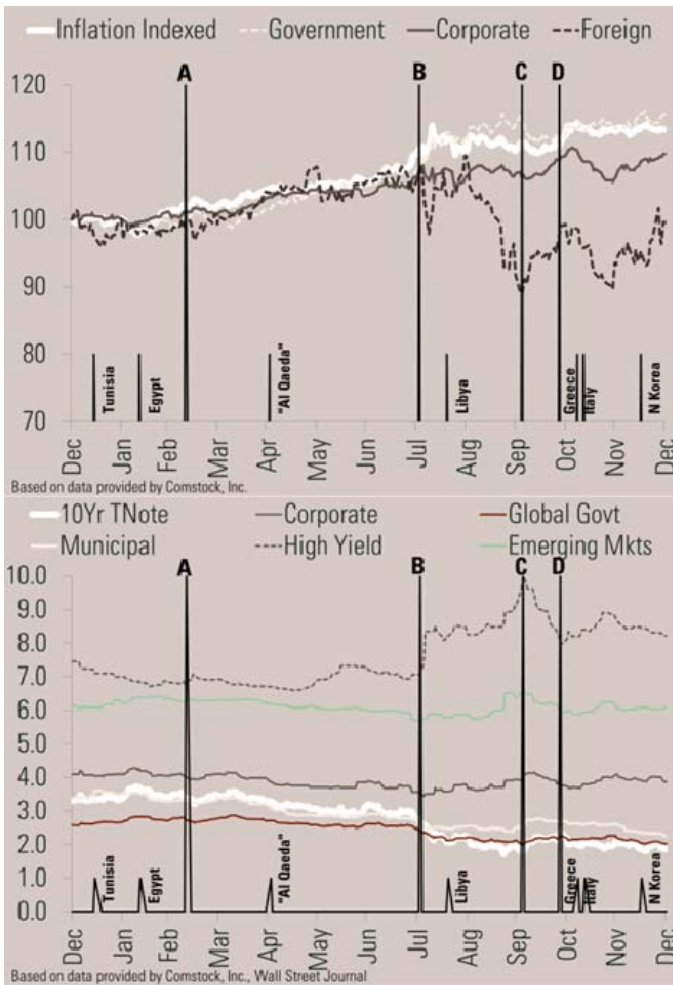
Just as markets regained their footing, US fiscal policy came under focus. April 18, Standard & Poor's, one of three government-recognized credit ratings agencies, issued a warning that US Treasury debt was at risk of a credit rating downgrade. Obama sought from Congress the authority for Treasury to increase its debt burden beyond a statutory limit (which coincidentally is currently close to total gross domestic product [GDP]). Geithner had already quietly taken Treasury over that limit, but who was counting? House Republicans, Senate Democrats, and Obama drew political battle lines drawn that were muddy to start and downright dirty to finish. A sloppy deal raised the debt limit on August 2, which we show as event "B" on our charts. S&P downgraded the US Treasury August 5. US stocks lost over 20% by early October.

Around midday October 4, Ben Bernanke, Chairman of the US Federal Reserve Bank, was speaking to Congress's Joint Economic Committee. He was in the middle of a glum speech about "sluggish growth," "cautious . . . spending," "financial stresses," and "ongoing risks." He even belittled his own Fed as "not a panacea" to fix America's many problems. Suddenly, his word choices turned soothing and he closed by saying that the Fed will "create an environment that provides the greatest possible economic opportunity for all Americans." Investors like sponges, so thirsty for any good news, soaked his words along with any shares they could absorb. Stocks worldwide marched ahead at a rare clip, at least until Bernanke's colleagues from the European Central Bank got in the way with their own panacea. We identify Gentleman Ben's comments as event "C" for our series.

The US debt debate was symptomatic of the broadening sovereign debt crisis undertaking Europe. Several European Union member states seem not to have even begun to recover from the 2008 financial crash. The state policies and entitlement positions have cratered under massive public debts, and higher sovereign yields exacerbated an already bleak fiscal outlook. The worsening EU situation weighed heavily on markets throughout 2011. The penultimate effect appeared after an EU Summit hammered a deal on October 27 to call for sizeable concessions from private investors and extensive reliance on Chinese capital. Market euphoria lasted less than a day. When investors lost faith in the plan's efficacy, stocks turned lower and remained down for the remainder of 2011. We show the EU debt deal as event "D."



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Hawk100 Investment Process in Perspective.

Hawk100 advises members to pursue their life purpose, abide by their values, and attain their aspirations through strategic goals. We advise you to align your human wealth, permanent wealth, financial wealth and emotional wealth to support and enable your purpose. We align your investment strategy with your stated purpose. Thus with your portfolio, Hawk100 pursues your investment objective through personalized risk strategies. Our strategic asset allocation approach most significantly impacts actual results as was the case again in the

fourth quarter. In fact, for the quarter, your purpose driven, strategic approach resulted in a positive return. As of the end of 2011, Hawk100 has established targets for percentages of your portfolio dedicated to purposes to preserve and to provide for your portfolio as well as to promote and to protect your portfolio.

Under changing economic and financial market conditions and expectations, Hawk100 tactically adjusts your asset allocation among ten investment categories generally recommended as follows: cash for the purpose to preserve your portfolio principal; government, corporate, and foreign bonds for the purpose to provide income from your portfolio; stocks of large and small US and international companies for the purpose to promote your portfolio value; and commodities, private equity, and real estate for the purpose to protect your portfolio value. Hawk100 trades option contracts, as another protection strategy, only to the extent expressly stated in your wealth alignment plan.

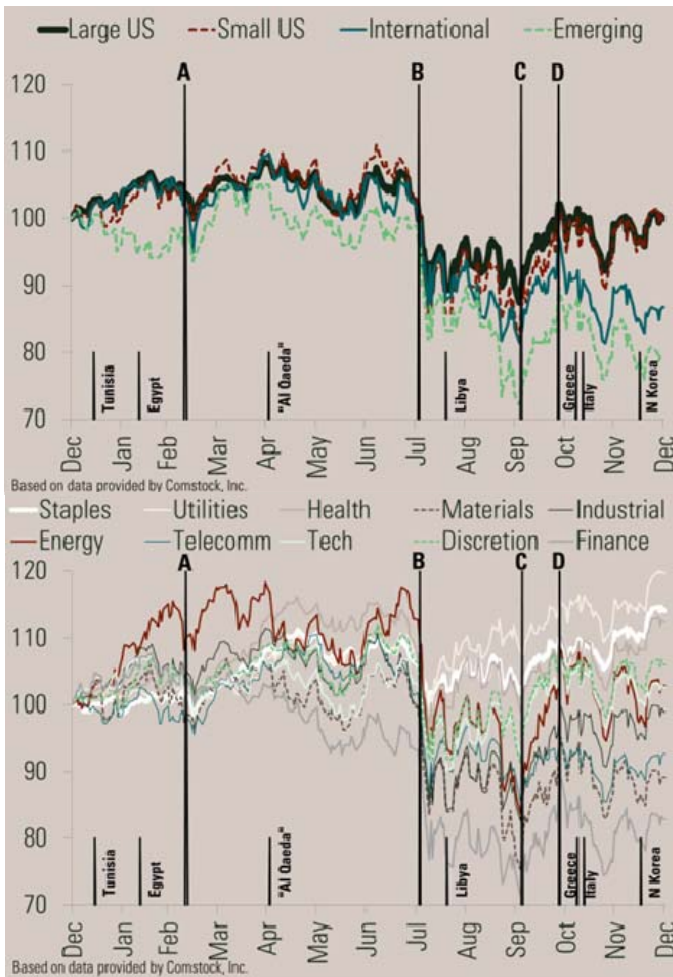
The Federal Reserve Board has maintained overnight target rates near zero since December 2008 and has announced its intention to continue this policy for the next several years (through 2014 as of this writing). Under this condition, the yield provided from cash equivalents and money market funds has been near zero throughout 2011. Your portfolio has cash on hand in order to preserve portfolio value through volatile markets and to maintain liquidity in the portfolio for potential reinvestment opportunities.

To discuss bonds, I thought it would be useful to share two charts: one based on price and the other based on yield. Simply, when yields rise, bond prices fall. When yields fall, bond prices rise. Yields rise and fall with changing market conditions, risks, expectations, and other opportunities.

The top chart shows the total return value of \$100 invested December 31, 2010 in each of four representative investments for the broad investment categories that meet our "provide" purpose. We add inflation-indexed notes since we hold these in place of nominal government bonds while the Fed has an expansionary monetary policy. Until the US debt ceiling debate, bonds were essentially in parity. Thereafter, foreign bonds and corporate debt lagged governments.

The lower chart shows yield indices for 2011. You get a sense of yield levels. For example, the 10-year treasury, at 1.87%, is near its all-time low. Consistently falling yields in early 2011 reveal lower inflation

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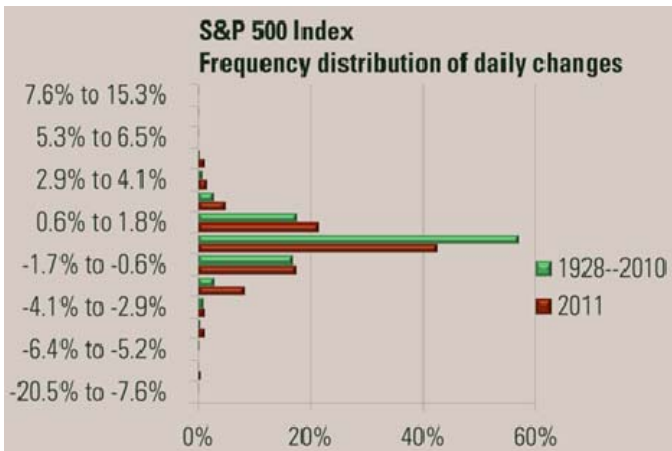
expectations. You also get a sense of relative spreads among yields. For example, the spread between emerging markets and global governments widened until Bernanke’s panacea comment. Widening spreads are consistent with expectations for deteriorating economic conditions (rising credit risk). At elevated yields and spreads, Hawk100 has raised targets for holding emerging market and high yield debts.

To consider stocks, again I offer two charts. The top chart shows the total return value of \$100 invested December 31, 2010 in each of four representative investments for the broad investment categories that meet our “promote” purpose. Like bonds, US and developed international markets performed at parity until after the US struck its debt ceiling deal. Overseas markets diverged after the EU debt deal. Unlike bonds, emerging markets diverged from the start when the Arab Spring rose. While stocks fell short of expectations throughout 2011, Hawk100 held actively underweighted stocks consistently. We gradually began to raise equity targets starting in August at the depths of the plunge.

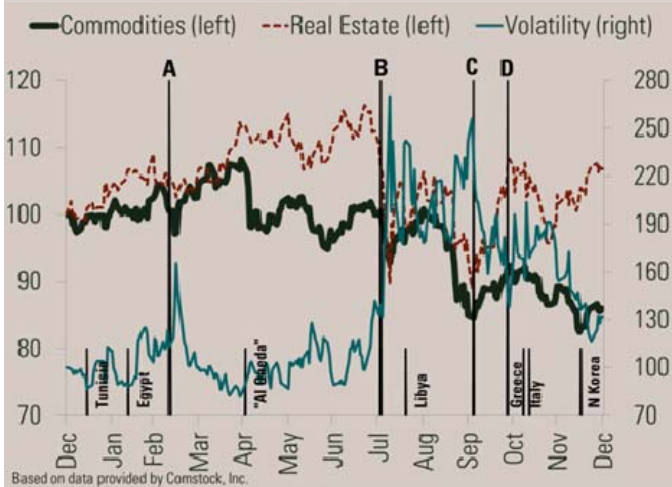
The bottom chart shows the ten sectors that Hawk100 tracks for your portfolio. We recognize this chart busily shows the ten sectors. Nonetheless, we illustrate that sectors frequently rotate leaders and laggards. Energy led until our Navy Seals took out Osama bin Laden. Health took over leadership until the heat of the debt ceiling debate when Medicare funds were threatened to cease. Once the US settled its debt limit, utilities held the lead for the remainder 2011. In your portfolio, Hawk100 favored utilities among sectors. After the first quarter when telecomm was the worst laggard, financials took over the bottom spot and never relinquished it for the rest of 2011. Hawk100 underweighted your investment in the finance sector. Hawk100 measures and evaluates performance attribution to sector selection each quarter.

We often noted that stock prices were volatile during 2011 and usually use intraday volatility or the CBOE Volatility (VIX) Index to describe this risk. Here, we take a different tack. This chart shows the distribution of daily changes in the S&P500. Each bar measures the frequency of daily moves within one standard deviation. 2011 has “fat tails” meaning wider extremes occur more frequently than predicted. In fact, up and down days beyond two standard deviations occurred 1.9 and 2.5 times, respectively, more frequently than in all past years.

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Based on data provided by Comstock, Inc.



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Hawk100 took several actions in response to increased volatility. Those actions varied for each member portfolio and were taken in consideration of each individual member’s Wealth Alignment Plan. For example, we may have held more cash than the stated policy percentage. We may have restricted trading to occur only when we believed conditions were in your favor (holding through periods of volatility result in no losses...beyond a few skipped heart beats). When suitable, we may have invested in alternative investments that tend to efficiently diversify a portfolio in times of elevated volatility.

Looking at alternative investments, the chart at bottom-left, our final in the series, depicts representative investments for broad investment categories that meet our “protect” purpose. In this case, to make each plotted line visible, we used two scales. Commodities and real estate appear with the left axis and the VIX index, mentioned above, shows on the right scale. Again, the chart shows the total return value of \$100 invested December 31, 2010 in each. Here, divergences are apparent throughout the year although the US debt ceiling deal again had the greatest impact. Volatility-based investments, particularly VIX futures, performed best among the assets considered in this letter.

Be confident that Hawk100 will continue to professionally manage and efficiently diversify your portfolio in such a way that aligns your wealth with your life.

I deeply and personally appreciate your Hawk100 membership.

Warmest regards,

Hawk100
Richard Clemens, CFA
President

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