



Dear Hawk100 Member.

Please find your Wealth Alignment Report for the second quarter of 2012 from Hawk100.

For this edition of your quarterly letter, I'll step through a prudent mid-year portfolio review.

Hawk100 has a well-defined approach to help you align your wealth with your life. Your Wealth Alignment Plan documents that approach and establishes regular portfolio reviews including these quarterly reports. We hope you find this process valuable, and we always welcome your comments and concerns which help us objectively and continuously improve our wealth advisory practice for your benefit.

In addition to your input and feedback, Hawk100 receives information from a variety of sources to further advance our practice. For example, Morningstar recently published an article by Christine Benz, director of personal finance for Morningstar and author of 30-Minute Money Solutions: A Step-by-Step Guide to Managing Your Finances. That article resonated with us at Hawk100 because it endorses a discipline similar to what we promote. The following is adopted from the Benz article, "A Midyear Portfolio Checkup in 6 Steps." We welcome your further discussion of any of the following six steps for your checkup.

1: Assess asset allocation. Empirical evidence suggests that asset allocation is the primary determinant of investment performance. Your Wealth Alignment Plan sets forth a strategy to allocate assets to those that preserve your investment principal, those that provide income and cash flow, those that promote growth in your portfolio value and those that protect your portfolio value through uncertainty. Accordingly, Hawk100 dedicates the majority of its time to establishing and implementing your asset allocation strategy.

We start with established strategic allocation targets in Your Wealth Alignment Plan. Strictly adhering to those targets during the quarter would have returned the average of each representa-

tive index weighted by the target percentage for that asset class. We then tactically adjust your target proportions for each purpose based on our opinion regarding economic and market conditions. Your tactical adjustments to allocation targets during the quarter were as follows for each purpose:

Table with 2 columns: Action and Result. Rows: Preserve (Favor), Provide (Strongly avoid), Promote (Neutral), Protect (Favor)

Hawk100 tactical adjustments contributed to your performance.

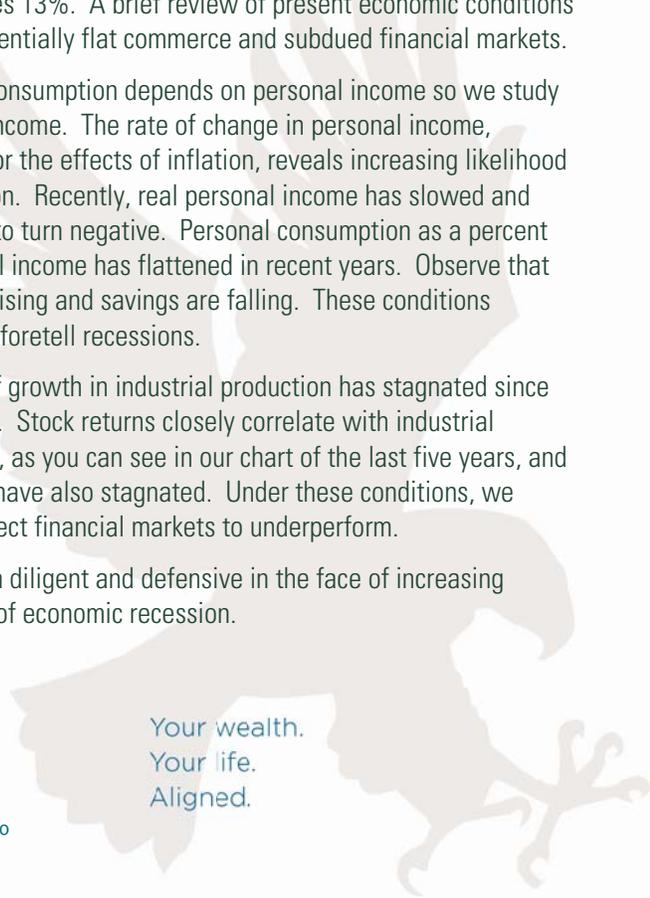
Economic conditions drive financial market performance. To evaluate economic conditions, we focus on personal income and industrial production. The chart at left shows Gross Domestic Product (GDP) components: personal consumption, government spending, investment, and net exports. Lately, personal consumption comprises 71%—and rising—of US GDP and investment makes 13%. A brief review of present economic conditions shows essentially flat commerce and subdued financial markets.

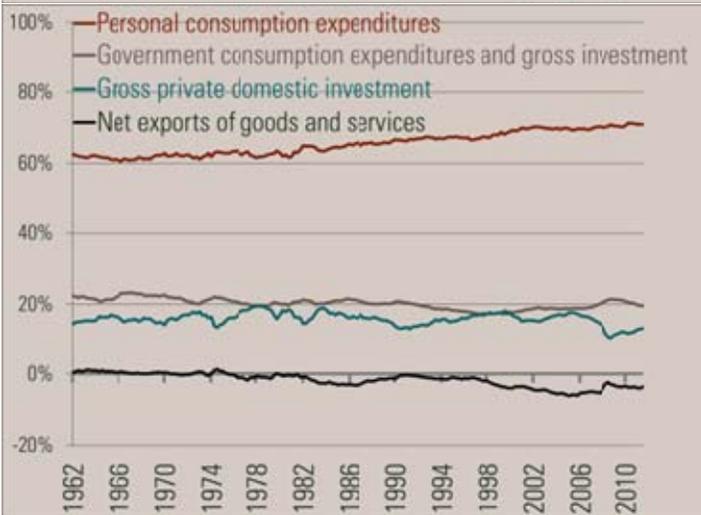
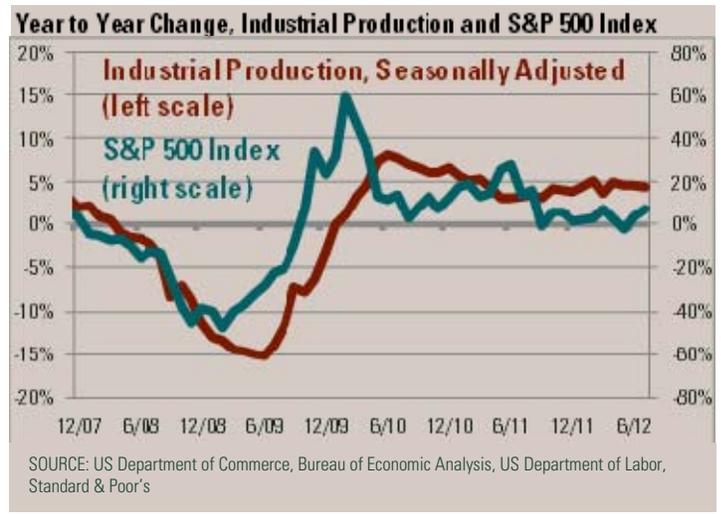
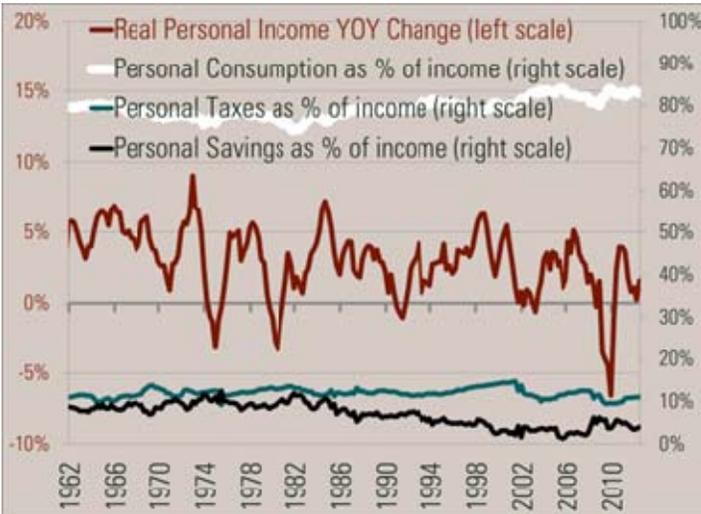
Personal consumption depends on personal income so we study trends in income. The rate of change in personal income, adjusted for the effects of inflation, reveals increasing likelihood of recession. Recently, real personal income has slowed and threatens to turn negative. Personal consumption as a percent of personal income has flattened in recent years. Observe that taxes are rising and savings are falling. These conditions frequently foretell recessions.

The rate of growth in industrial production has stagnated since early 2010. Stock returns closely correlate with industrial production, as you can see in our chart of the last five years, and appear to have also stagnated. Under these conditions, we would expect financial markets to underperform.

We remain diligent and defensive in the face of increasing likelihood of economic recession.

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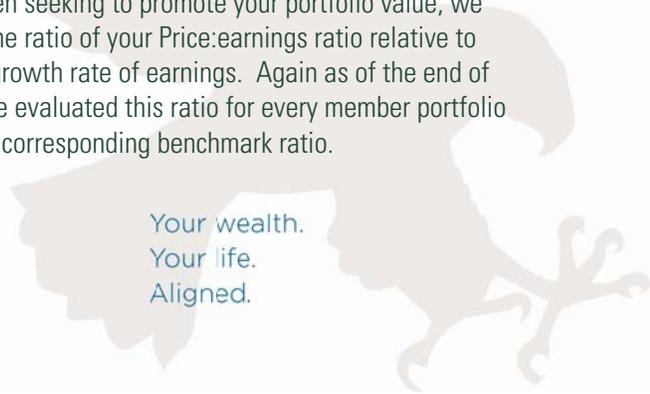


SOURCE: US Department of Commerce, Bureau of Economic Analysis,

**2: Troubleshoot sizeable bets.** Hawk100 regularly evaluates the purpose of each holding while weighing expected benefits to risks. Sector allocation and security selection contribute to your performance. Your Wealth Alignment Plan sets forth investment limitations for us to follow in executing your investment strategy.

**3: Check liquid reserves.** Liquidity becomes an increasingly important factor in your Wealth Alignment Plan as you approach the need for drawing principal from your portfolio. Please keep us apprised of your changing cash flows so we can adjust your portfolio accordingly. In addition to that strategic financial planning factor, it is wise to maintain liquidity in your portfolio so we can nimbly respond to dynamic market conditions. Accordingly, we generally hold securities that are readily marketable and we hold cash or money market securities in portfolios.

**4: Bargain-hunt.** We always consider valuation in managing your investment portfolio and strive to maximize the ratio of your expected return to the expected risk. When seeking to provide you with income, we measure the ratio of your yield relative to duration (the primary risk associated with income producing securities). As of the end of quarter, we evaluated this ratio for every member portfolio versus the corresponding benchmark ratio. When seeking to promote your portfolio value, we measure the ratio of your Price:earnings ratio relative to expected growth rate of earnings. Again as of the end of quarter, we evaluated this ratio for every member portfolio versus the corresponding benchmark ratio.



Your wealth.  
Your life.  
Aligned.



**S&P 500 Index**



**10-Yr Yield | ^TNX**



SOURCE: Interactive Data

**5: Assess your savings rate.** Hawk100 instructs that there are four ways to increase wealth. One, increase your human wealth by advancing and capitalizing on your skills. Two, save your earnings instead of spending them. Three, invest your savings to earn a prudent return on your savings. Four, distribute and transfer your wealth to effectively deliver on your life purpose. To our second point and as we showed above, US citizens tend toward low savings rates. During the second quarter in aggregate, US individuals saved only 4% of their gross income. A general threshold would be closer to 10%. Please contact Hawk100 to discuss your personal rate of savings and how this affects your Wealth Alignment Plan.

**6: Check your tax position.** Taxes erode wealth in hidden as well as transparent ways. Hawk100 seeks to help you avoid, reduce, or defer your tax liabilities as appropriate. Hawk100 manages your asset location in addition to your asset allocation. In part, Hawk100 generally holds securities that provide income in tax-deferred accounts (e.g., IRA) and holds securities that promote portfolio growth in currently taxable accounts. To discuss your specific asset location strategy and your asset allocation strategy, please contact us.

Your Hawk100 membership is greatly appreciated.

Warmest regards,

Hawk100  
 Richard Clemens, CFA  
 President

Your wealth.  
 Your life.  
 Aligned.

