



# Summer 2010 Economic Outlook and Investment Strategy

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# Why have we been underweight equities?

## The 3-D Effect...

- **Debt**

- Federal and sovereign debt may be reaching a tipping point
- Household debt still too high

- **Demographics**

- Baby Boomers getting older, paying down debt, saving more and spending less

- **Deflation**

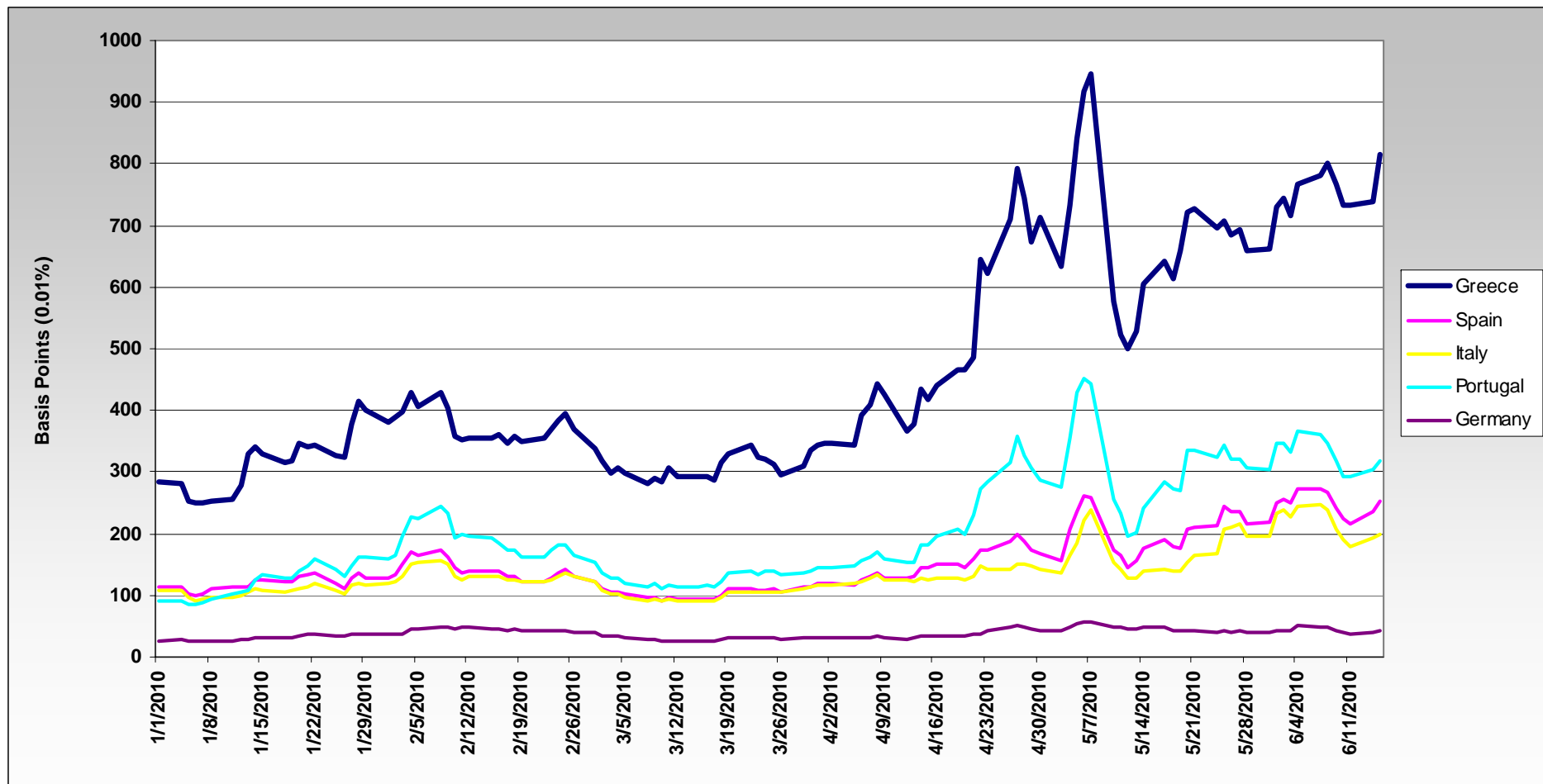
- Causes the deferral of purchases
- Makes current debt more expensive to service

## What recent events made us more cautious on the market?

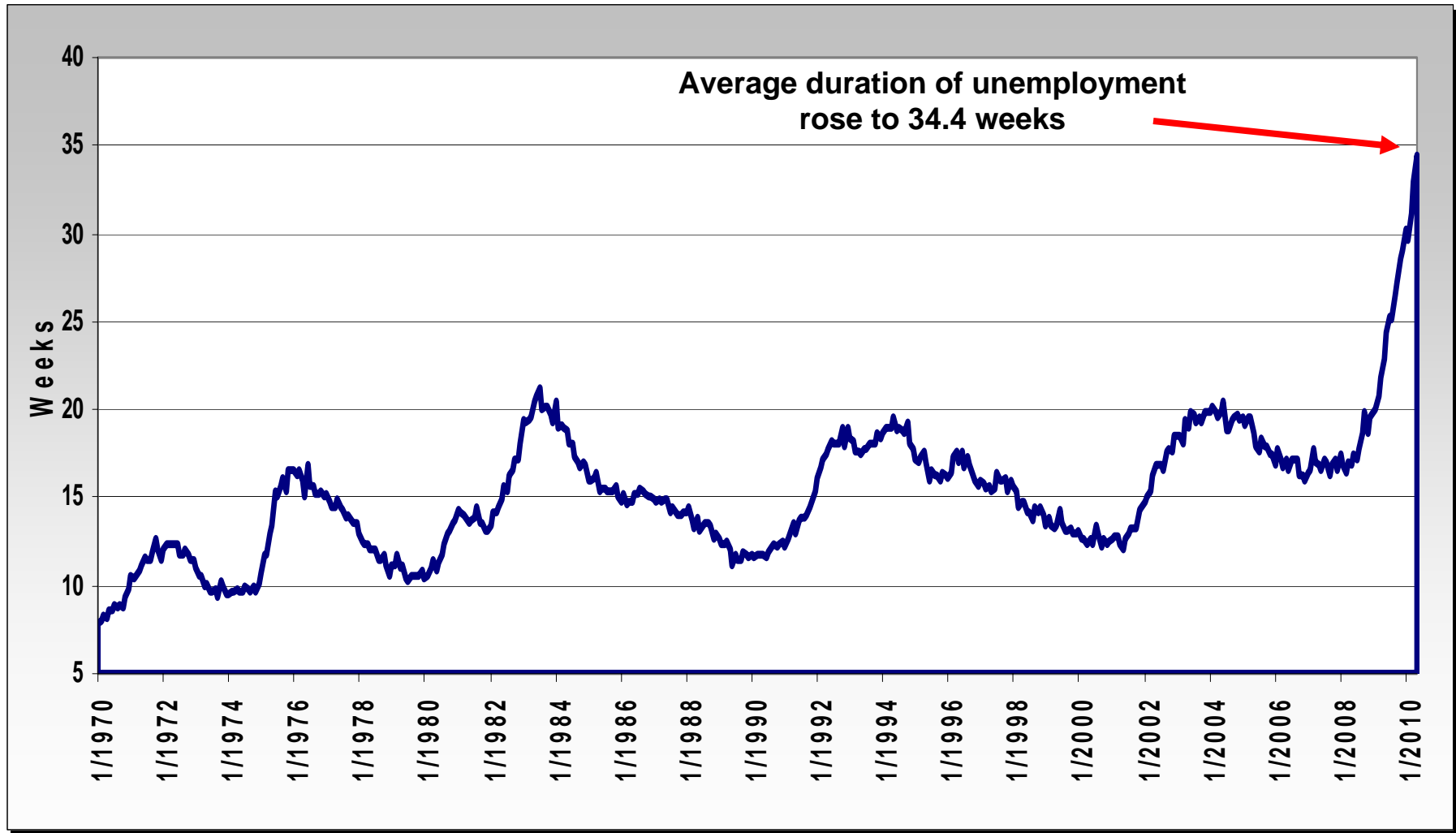
- Deterioration in Europe's economy and financial system
- Weakness in the employment data
- Market technicals deteriorated significantly
- Reversal of Leading Indicators

# Credit Default Swaps

The cost to insure bond principal from default has become very expensive for some European countries.

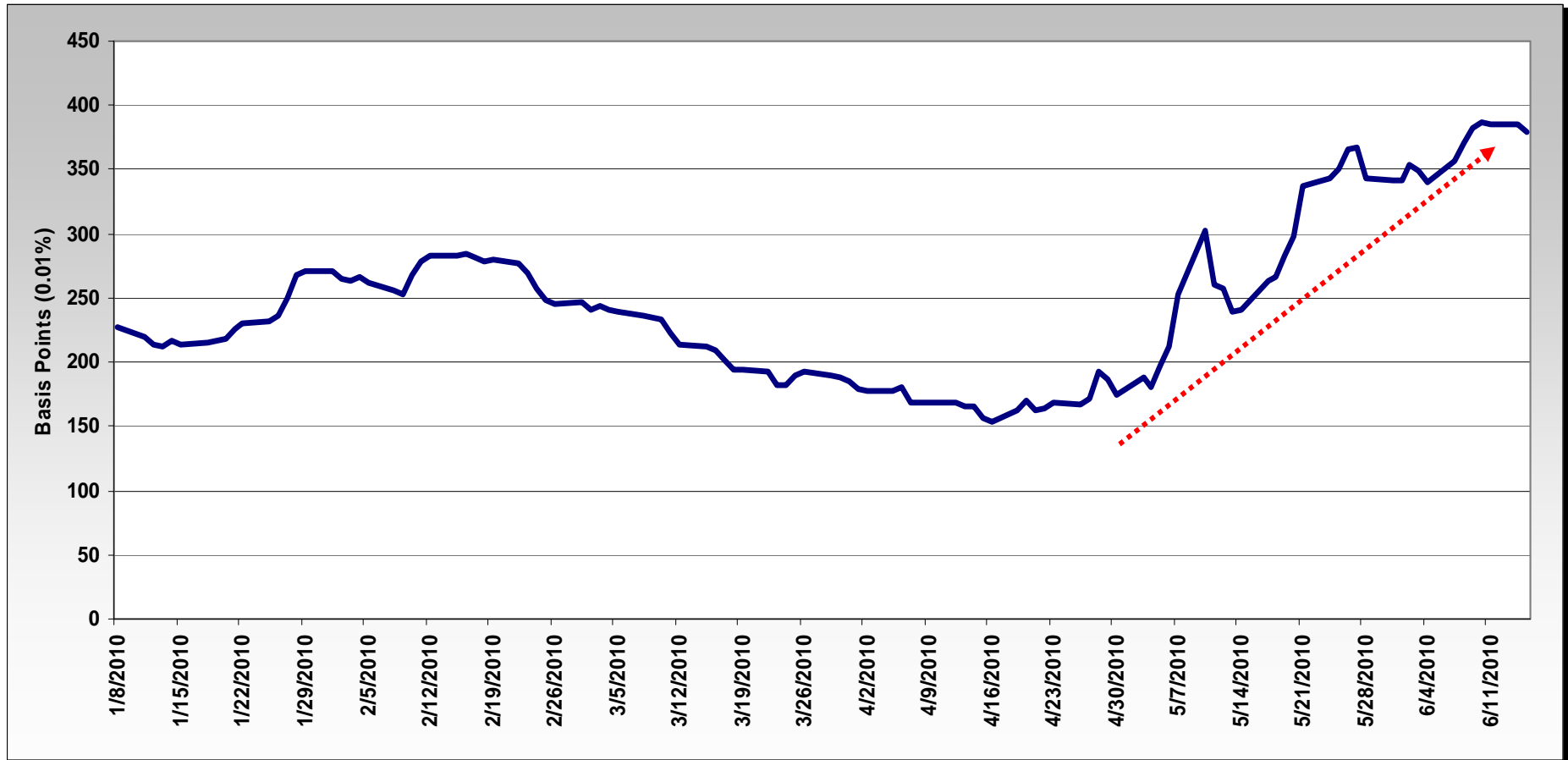


# Duration of Unemployment at Record High



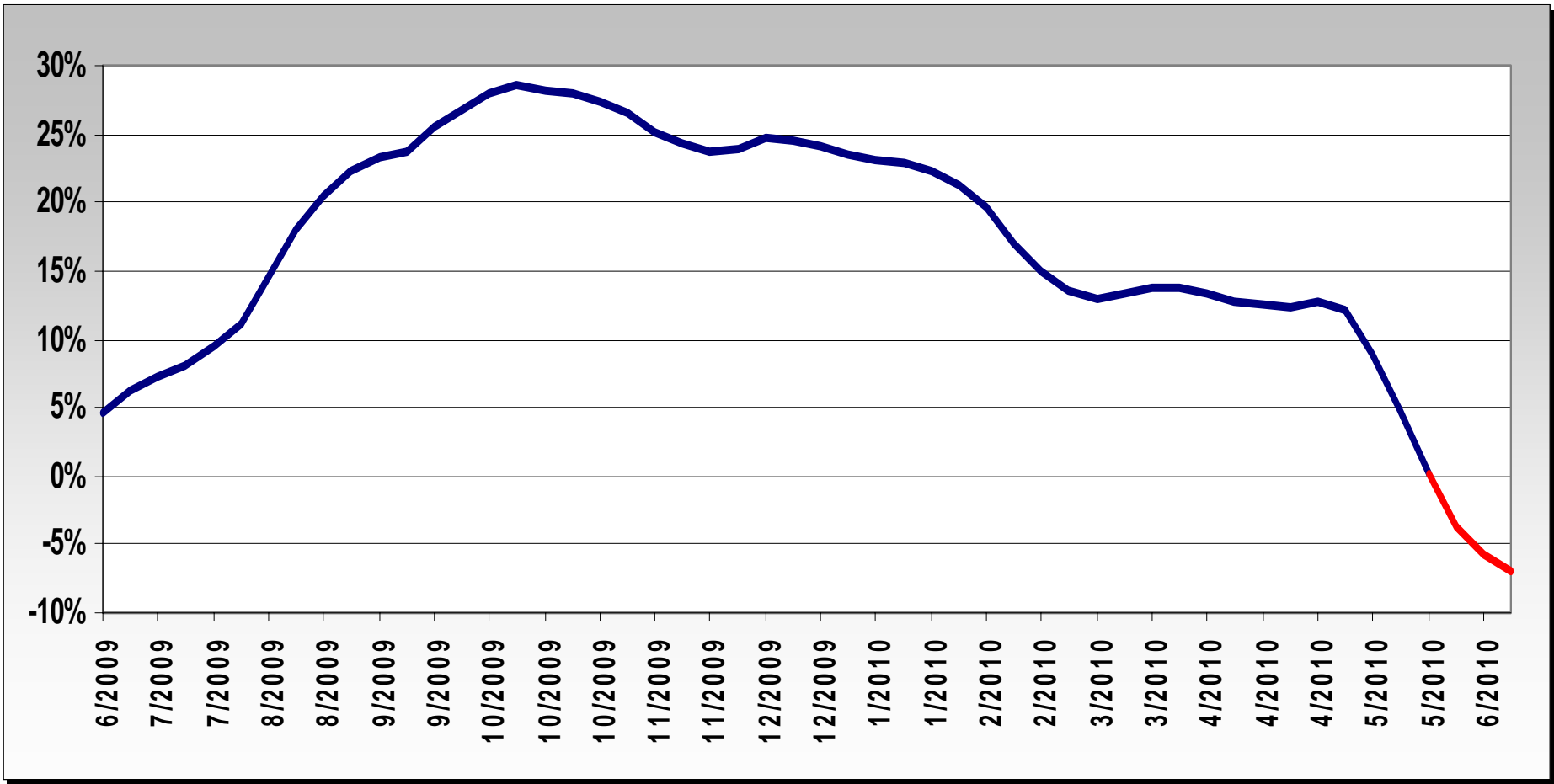
# CLOG Index Measures Stress In U.S. Financial System

The index aggregates: inter-bank stress, financial default risk, mortgage credit spreads, and equity volatility. A higher number suggests more stress.



# Economic Cycle Research Institute Leading Indicators Softening

Weekly leading indicators growth turned negative in early May

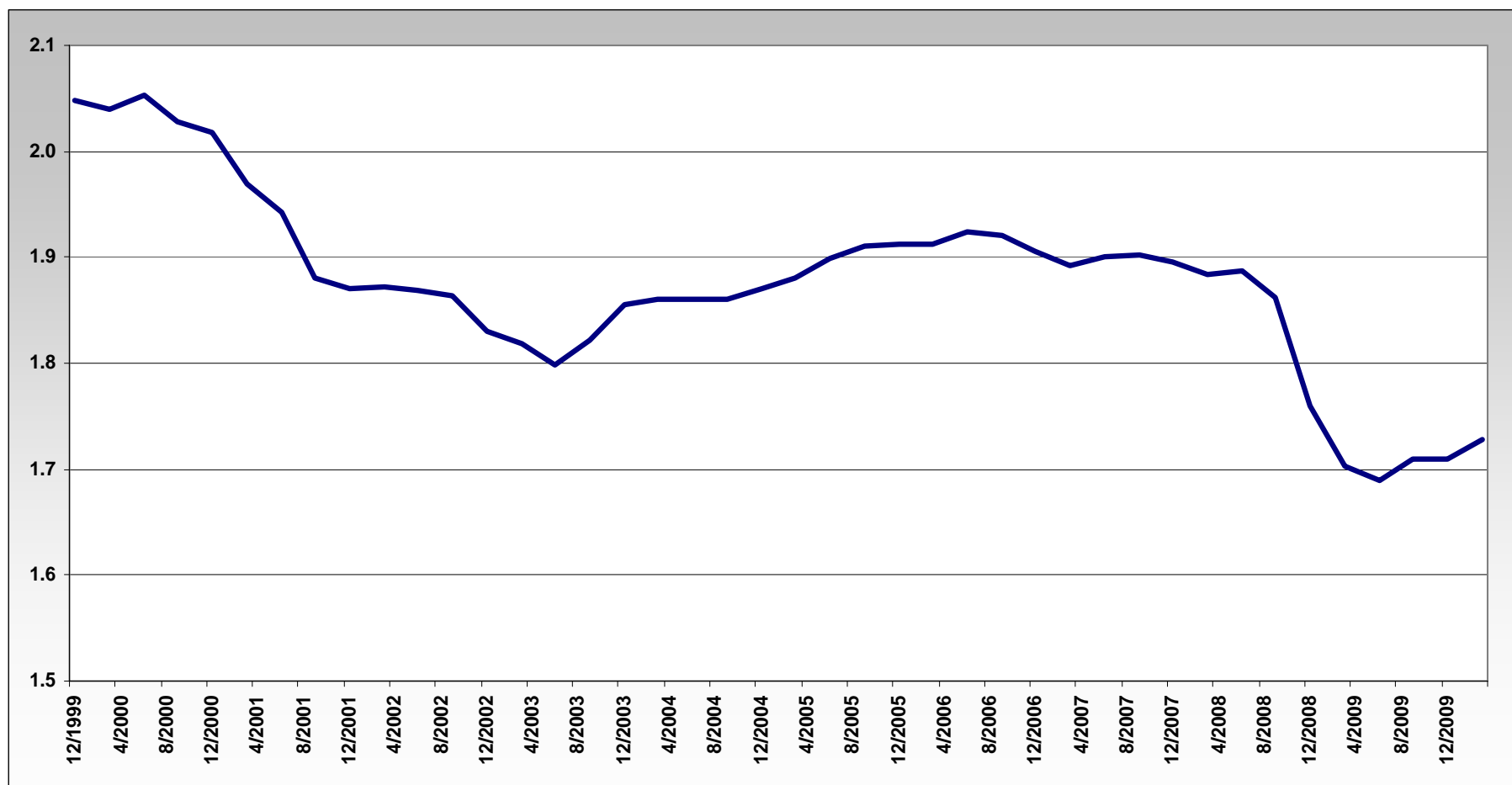


## What other challenges does the market face?

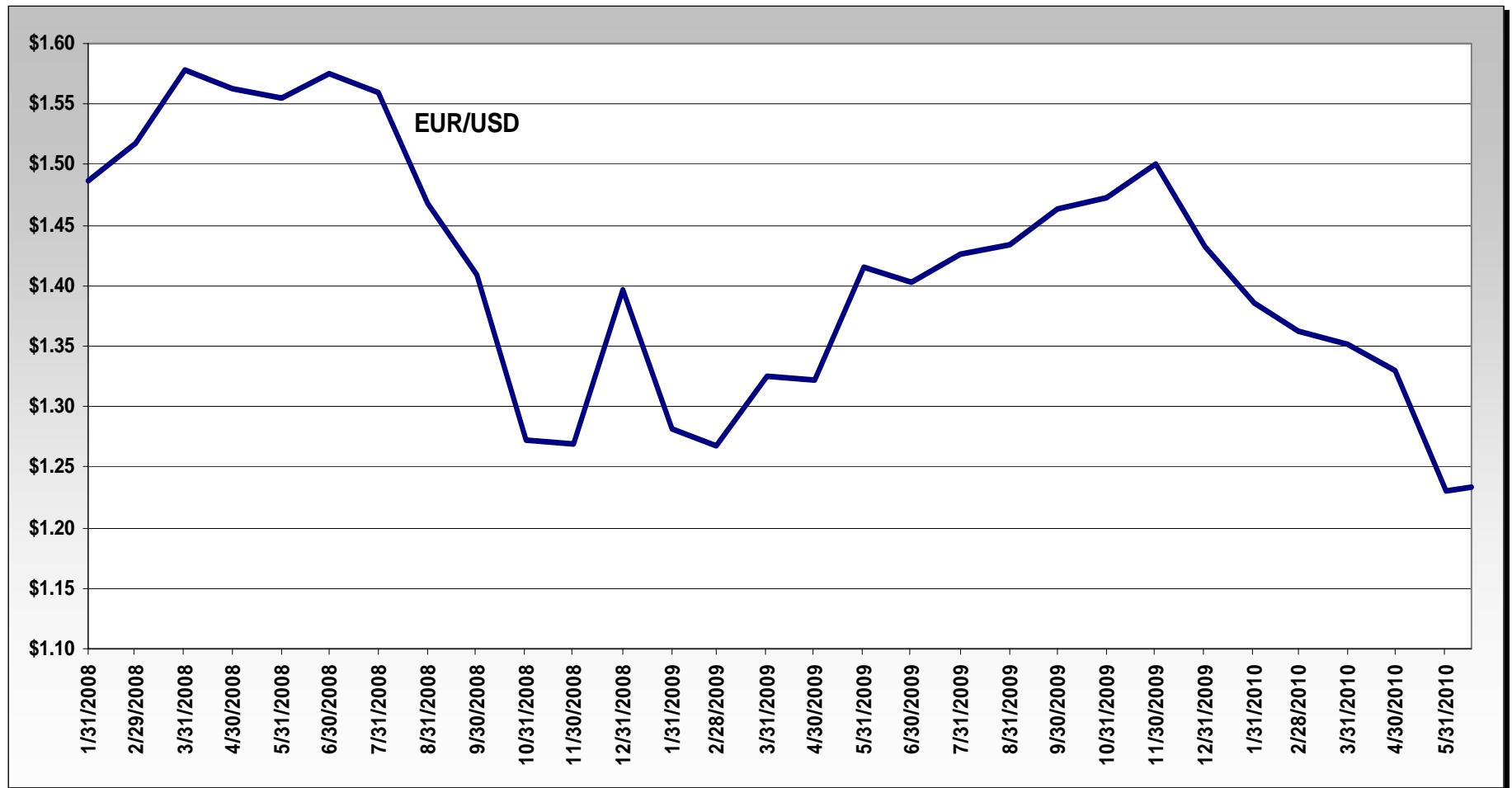
- Concerns about China
- Financial Regulation
- Currency issues
- Geopolitical events
- Slower GDP growth
- Impending tax increases
- Less bank lending

# Money Velocity Still Low

Banks are still repairing their balance sheets and borrowers are still cautious.



# Investors are Selling the Euro and Buying the U.S. Dollar



## Despite the hurdles, there are some bright spots

- Price-to-earnings ratios are lower than historical levels
- Overall corporate liquidity at levels last seen in the 1950s
- Low interest rates create favorable refinancing opportunities for the U.S. Government, as well as for homeowners
- Expected long-term secular growth for the Emerging Markets

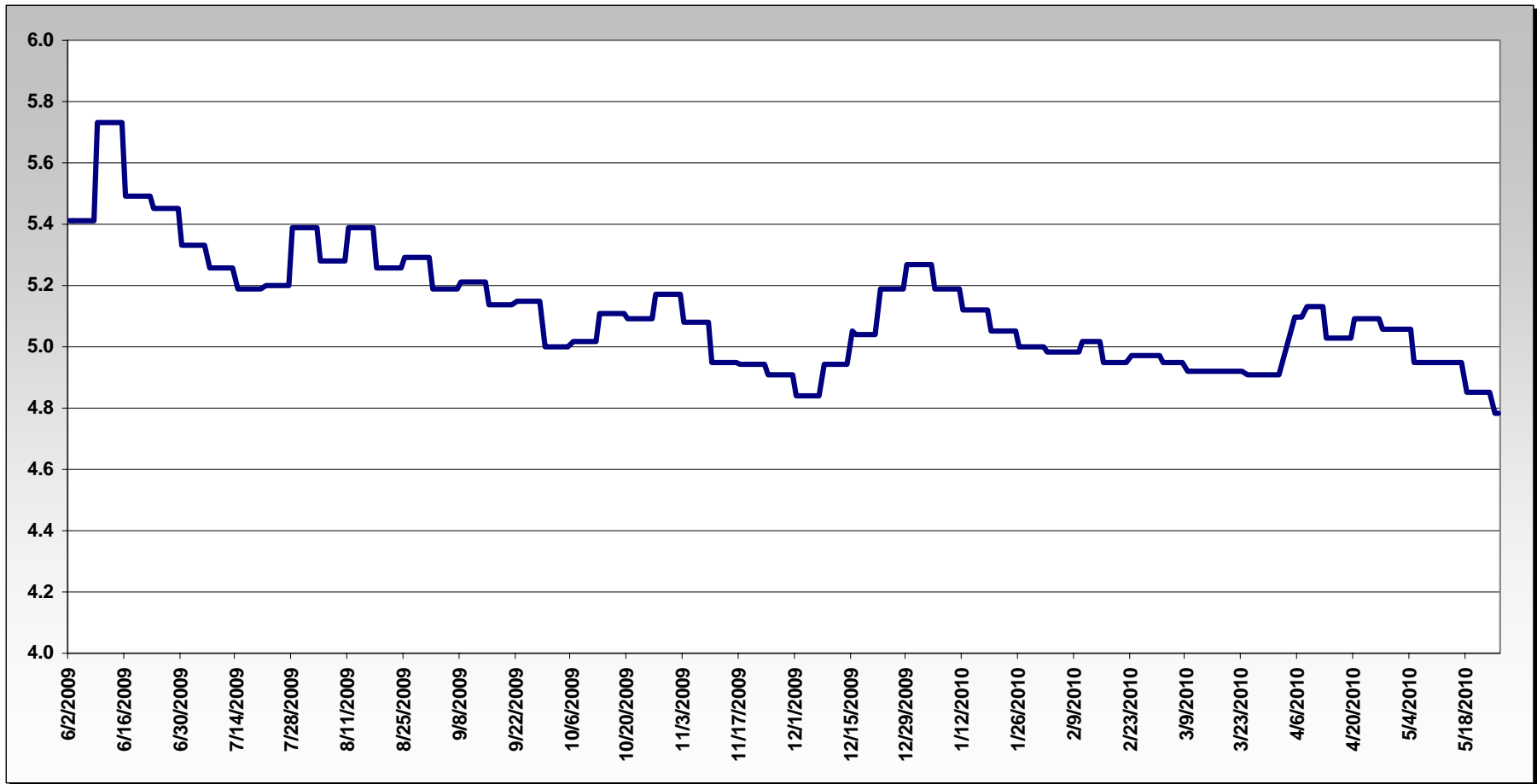
# 10-Year U.S. Treasury

Interest rates are near historical lows



# Average Conforming 30-Year Fixed Rate Mortgage

Low mortgage rates could alleviate some pressure from adjustable-rate refinancings.

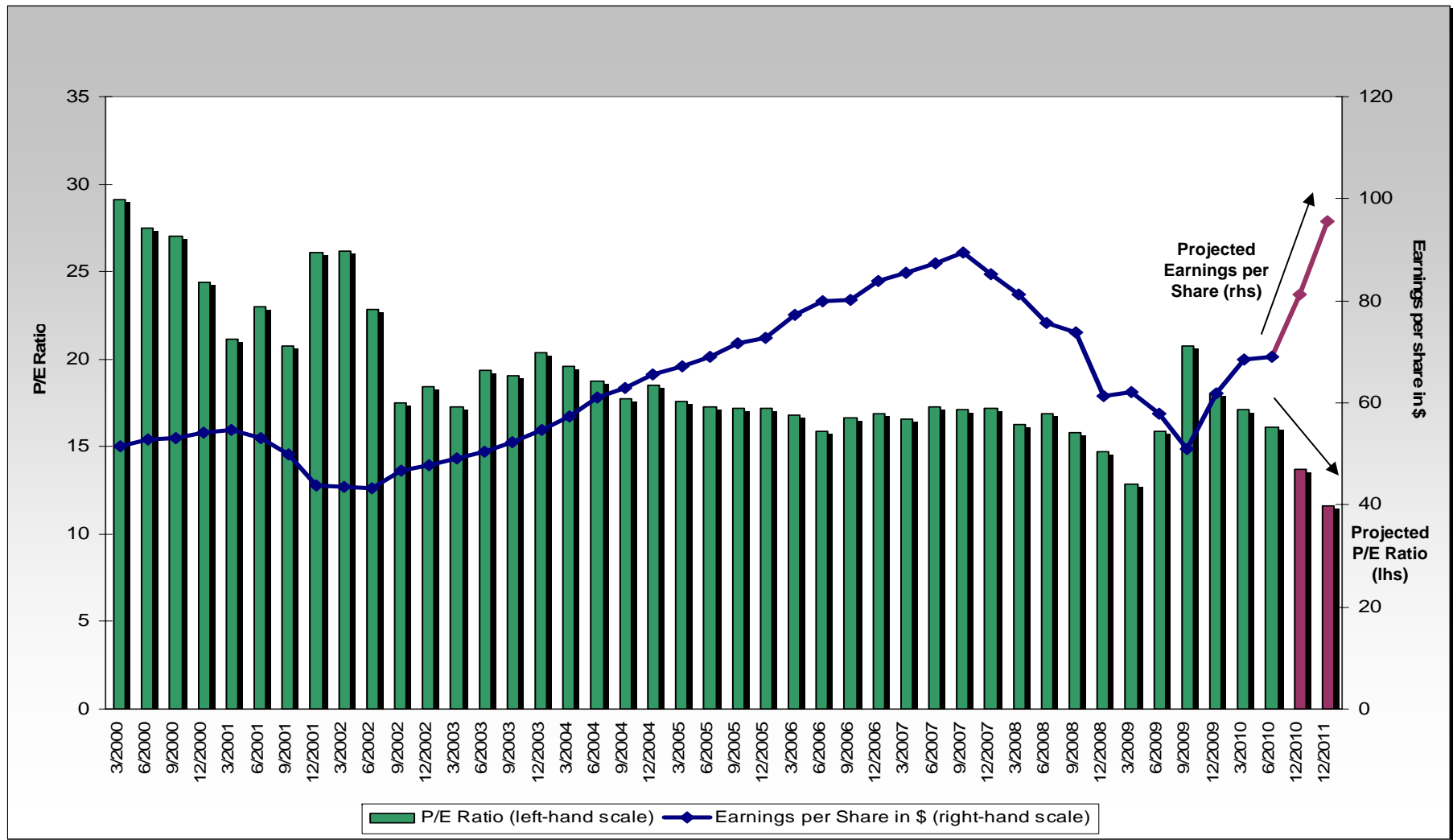


## What would cause us to be more bullish?

- Earnings continue to exceed expectations and grow despite a weaker global economy
- Stock valuations become overly discounted
- Stimulus measures expand

# Market Valuation

Projected S&P 500 earnings per share are rising and Price/Earnings ratio falling.

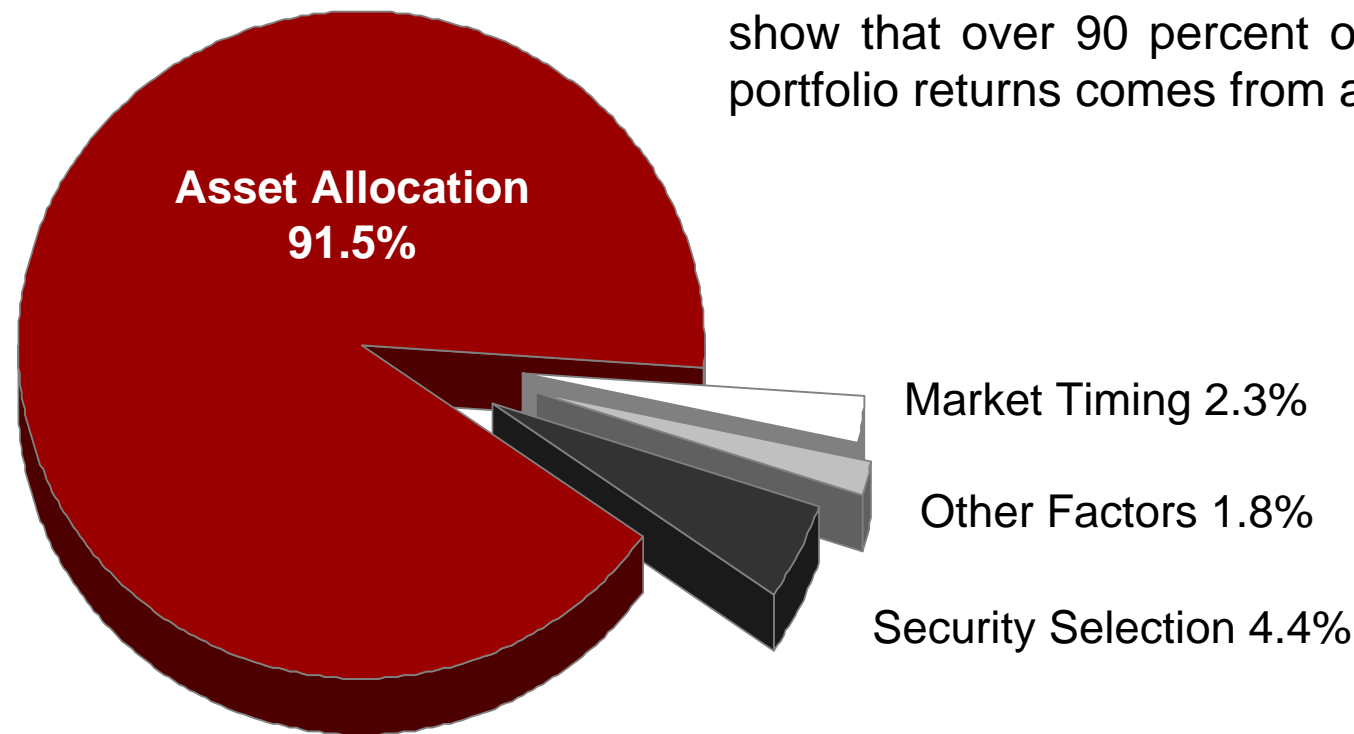


# Investment Philosophy

- Thinking long term (Investing for a Lifetime)
- Practicing patience
- Structuring your portfolio to maintain purchasing power and, thus, your lifestyle
- The importance of asset allocation in managing risk

# Asset Allocation is the Engine that Drives Investment Performance

Asset allocation is an important determinant of total return. Studies over the last twenty years show that over 90 percent of the variation in portfolio returns comes from asset allocation.



- Data as reported in the March 2009 Financial Analysts Journal by L. Randolph Hood

## How are your portfolios positioned for this uncertainty?

- We have been underweight equities
- We recently reduced international small-cap equities and U.S. large-cap equities
- We are underweight Europe
- We are underweight lower credit quality bonds
- We will continue to evaluate market conditions and adjust your portfolios accordingly



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**Greg Sullivan** is President of Harris SBSB, a service of Harris Private Bank that provides comprehensive financial planning and wealth advisory services to affluent clients. Mr. Sullivan, who co-founded Harris SBSB in 1991, is responsible for ensuring the continued growth and development of the business and specializes in providing investment management, tax advisory and financial planning services to clients.

Mr. Sullivan earned his bachelor's degree from Pennsylvania State University and has over 25 years of experience advising affluent clients. He is a CERTIFIED FINANCIAL PLANNER™ professional, a Certified Public Accountant (CPA) and is accredited as a Personal Financial Specialist (PFS) by the American Institute of Certified Public Accountants.

Mr. Sullivan is actively involved in the financial planning community. He is past president of the International Association for Financial Planning (now called the Financial Planning Association) and served on its Board of Directors from 1989-1997. He is a founding member of the Alpha Group, a nationally recognized group of leading financial planners. Mr. Sullivan was recognized by Barron's as one of the Top 100 Independent Advisors and by Washingtonian magazine as one of the area's Top Financial Planners in 2009.



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**Gary Lyons** is Director of Portfolio Management at Harris SBSB where he specializes in investment strategy and policy. In addition to meeting with clients to discuss investments, Mr. Lyons chairs Harris SBSB's Investment Policy Committee.

Mr. Lyons earned his B.B.A., with honors, in Accounting and Finance from the University of Georgia and his M.B.A., also with honors, in Finance from the University of Kentucky.

Prior to Harris SBSB, Mr. Lyons served as Executive Director of Riggs & Co.'s domestic Wealth Management Division where he had full responsibility for all aspects of the firm's domestic wealth and asset management businesses. Before joining Riggs & Co., Mr. Lyons served as the Managing Director of the Alexandria Bancorp Group of companies. He was responsible for a 75-person staff with full profit and loss responsibility for \$19.8 billion in assets under management, \$140 million in annual revenues and a \$28 million operations budget. He directed the operations of seven offices in five countries.

Mr. Lyons currently serves on the board of The Patrick Foundation, a private charitable foundation that contributes to various organizations in areas of interest to the foundation trustees (mainly environmental). He has also served on the boards of Transatlantic Trading and Leasing Corp., Shield International Insurance Corp., as well as Ellwood Venture Capital Corporation. He previously served on the Financial Accounting Standards Board from 1991-1995 and The Canadian Society of Management Accountants from 1993-1995.

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