

WHAT WAS THE NEWS?

Somewhat unexpectedly, Fed Chairman Bernanke signaled an intention to slow down the pace of monetary stimulus.

The Punchbowl: Signs of an improving economy could lead to an early end to a party fueled by the Fed.

- An improving economy would normally be good for stocks but artificial stimulus has distorted fundamentals. In addition, the credit market in China is buckling.

HOW DID THE MARKETS REACT?

As illustrated in the charts to the right, we are in the midst of a minor pullback in both of the major asset classes.

Stocks: After a 200 points sell-off yesterday, the DJIA fell by 353 points (2.34%) today, but is still up over 10% on the year.

Bonds: The Barclays Aggregate Gov't/ Credit Index continued its recent sell-off and is now down ~2.5% on the year, a rarity for the traditional fixed income markets.

WHY?

The Fed triggered a partial unwind of the multi-year, multi-asset class misallocation of capital that has been caused by artificially low rates.

Utilities and REITS: Higher-yielding stocks benefitted from a reach for yield that is now reversing course as rates recover.

Long-term Bonds: With little return potential, the risks of this overpriced asset class were finally exposed by rising rates.

Commodities and Precious Metals continued to sell-off because they are priced in dollars that are rallying and used as an inflation hedge, a threat that is off the table...for now.

Emerging Markets are now down over 12% on the year as the strength of the U.S. dollar, rising interest rates, commodity weakness and China's woes are causing an outflow of capital.

CLIENT POSITIONING AND OUTLOOK

STOCKS: As readers of *Strategic Insights* may have noted, Strategic took advantage of all-time stock market highs to rebalance portfolios in anticipation of a pullback.

- Portfolios now have a neutral to underweight equity allocation vs. long-term targets.
- We are looking at adding exposure to emerging markets (a big laggard with attractive valuations) and international stocks (another laggard starting to enter our price range).
 - * After trimming the leading asset class (U.S. stocks) over the past few months, we now have room to redeploy that capital to more attractively valued segments of the market on the sell-off.

Outlook: With valuations reasonable and the economy starting to grow, we don't believe that the sell-off will extend beyond another 3-5% before resuming the longer-term uptrend.

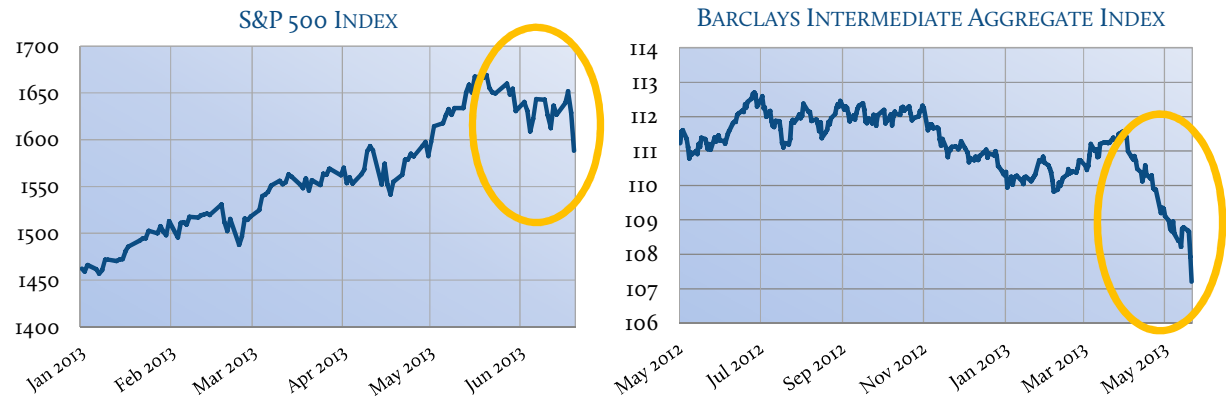
BONDS: Strategic has been preparing for this environment for years by maintaining a relatively defensive position in our core bond portfolio:

- Intermediate-to-short duration laddered portfolio structure (1-10 years)
- No premiums
- Limited credit risk

Outlook: After several years of gains, losses can still of course occur in bond portfolios, but we believe that the recent damage will be contained as the economy won't gap higher and inflation is tame.

REAL RETURN ASSETS: We have neutral allocations to two areas of the market that have come under significant pressure recently: commodities and precious metals.

Outlook: While we believe that they these assets are an excellent hedge in a diversified portfolio, we will wait for the downtrend to reverse before deploying additional client capital to the space.



Source: Bloomberg

ABOUT STRATEGIC

Founded in 1979, Strategic is a leading investment and wealth management firm managing and advising on client assets of \$850 million. Our goal is to produce attractive long-term returns in support of client objectives. A repeatable process managed within a culture of disciplined risk management defines our decision making framework.

INVESTMENT TEAM

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For additional information on Strategic's investment team, financial advisors and client support professionals, please visit us at: www.investstrategic.com/our-team/

PORTFOLIO MANAGEMENT

STRATEGIC Asset Allocation

Strategic's Core/Satellite approach to asset allocation produces customized, cost-efficient portfolios that properly reflect the risk and return objectives of our clients.



The firm's *Growth*, *Equity Income* and *Fixed Income* strategies are managed in-house to form the core of client portfolios. Select satellite strategies are then added to improve diversification and risk-adjusted returns.

STRATEGIC Growth

Objective: Achieve superior risk adjusted returns and long-term capital appreciation by investing in reasonably priced companies believed to have above-average potential for sustainable earnings growth.

STRATEGIC Equity Income

Objective: Maximize total returns by investing in companies trading below intrinsic value with attractive yields and a history of dividend increases, or the potential to grow them in the future.

STRATEGIC Fixed Income

Objective: Preserve capital while generating highly secure returns through exposure to high-quality, individually purchased bonds within a laddered portfolio structure.

DISCLOSURES: Every client situation is different. Strategic manages customized portfolios that seek to properly reflect the particular risk and return objectives of each individual client. All investments contain risk and may lose value. Certain of the information contained in this presentation is based upon forward-looking statements, information and opinions, including descriptions of anticipated market changes and expectations of future activity. Strategic Financial Services believes that such statements, information, and opinions are based upon reasonable estimates and assumptions. However, forward-looking statements, information and opinions are inherently uncertain and actual events or results may differ materially from those reflected in the forward-looking statements. Therefore, undue reliance should not be placed on such forward-looking statements, information and opinions. This material has been distributed for informational purposes and should not be considered investment advice or a recommendation of any particular security, strategy or investment product. The discussion of any investments in this presentation is for illustrative purposes only and there is no assurance that the adviser will make any investments with the same or similar characteristics as any investments presented. The investments identified and described do not represent all of the investments purchased or sold for client accounts. The representative investments discussed were selected based on a number of factors including recent company news or earnings release. The reader should not assume that an investment identified was or will be profitable. There is no assurance that any investments identified will remain in client accounts at the time you receive this document.

Index Comparisons. All index returns, unless otherwise noted, are presented as price returns and have been obtained from Bloomberg. Indices are unmanaged and cannot be purchased directly by investors.

The S&P 500 Index is a capitalization-weighted index of 500 stocks intended to be a representative sample of leading companies in leading industries within the U.S. economy.

The Dow Jones Industrial Average Index is a price-weighted average of 30 significant stocks trades on the New York Stock Exchange and the Nasdaq. The index covers all industries with the exception of Transportation and Utilities.

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe.

The MSCI Europe Australia Far East Index is designed to measure the equity market performance of developed markets excluding the U.S. and Canada.

The MSCI Emerging Market Index is designed to measure the equity market performance of emerging markets.

The S&P GSCI Total Return Index is a composite index of commodity sector returns, representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

The iShares Barclays Intermediate US Government/Credit ETF is a managed exchange-traded fund that seeks investment results that correspond to the price and yield performance, before fees and expenses, of the investment grade credit sector of the U.S. bond market and the total U.S. Treasury market as defined by the Barclays Capital U.S. Intermediate Government/Credit Bond Index. The ETF performance assumes reinvestment of dividends and is presented net of fees. The ETF performance has been selected as a proxy for the index returns do to an inability to obtain updated index returns by the time of this mailing. The symbol for the ETF is GVI.