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Market Commentary

2010 Redux?

What a difference a week makes (or 5 trading days)! 2011 got off to a strong start in the first quarter, but stumbled in Q2 ...until the last five trading days. After more was said than done, the S&P 500 closed down .4% for the quarter and the Dow was up .8%. The result masks the internal turmoil however, because were it not for a late quarter rally the equity markets would have closed in the down 5% range for the quarter and would have brought the year to date returns to flat.

As is usually the case, the markets were an accurate reflection of the broader world in which they operate. As I plan this piece once a quarter, I usually try to focus on one or two important highlights of the markets or pull together a theme for the quarter to bring some insight on why the market did what it did. To be honest, I think it's just impossible right now to focus in on any single issue because its really everything that explains what's going on. The recent quarter was a jumble of economic reports that demonstrated both strength and weakness, both good and bad, almost everywhere one looked. Overall, I took the summation to be slightly negative, pointing to a "soft patch" in the world economy if not a more ominous double dip into a secondary mild recession.



Roy Sokolowski
Investment Manager

This is much the same argument that we had exactly a year ago. At that point the recovery was about one year in the making having progressed away from the 2007-2009 "Great Recession" bottom and looking a little tired. As we now know, the worries declined by the fall and we concluded 2010 strongly positive due to a continued rebound in corporate international earnings. A year later we are faced with the same concerns about a slowing world economy and we are worried about precisely the same issues now as then. If there is a theme to be drawn from all this perhaps that is it—that today's concerns were 2010's concerns, which really were the basis of the 2007 recession. It's the same ol'

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Special points of interest:

- Updated Privacy Notice enclosed with your statement
- Markets Closed September 5 (Labor Day)
- **Summer Vacation week: July 25-29.** Mike will be covering the office in our absence.
- Please let us know if you change your email so we can stay in contact with you

Second Quarter 2011 Market Wrap

<u>Market Indexes</u>	<u>% Change from 3/31/11</u>
S&P 500	-0.4%
DJIA	+0.8%
NASDAQ Comp	-0.3%
MSCI EAFE	+0.3%
Russell 2000	-1.9%

<u>Mutual Fund Yardsticks</u>	<u>% Change in Q2</u>
Equity Income	+0.5%
Large Cap Growth	+0.3%
Balanced	+0.5%
Gen US Taxable	+1.9%
Intermediate Bond	+1.8%



Market Commentary (cont from page 1)

same old: deficits, unsustainable sovereign debt, high unemployment, and sub par economic growth. And that's the issue really. These are **structural** problems that have been a long time in the making and are not going away any time soon. I believe that the economic issues of 2007 and 2010 and 2011 are all echoes of a structural impasse that we probably reached as far back as 2001-2003. Until we collectively deal with the fundamental issues that got us here we will continue to experience periodic reverberations in the markets.

In a perfect world, I think it would be preferable to fundamentally begin to correct some of the structural imbalances that have been created in the global economic system, but I don't think that our probable failure to do so immediately dooms us to investment purgatory. Our problems are, after all, largely solvable only in the political realm. That is why I do not believe they will be solved perfectly or completely. The problems will be postponed, kicked down the road, and avoided, but ultimately they will be tackled piece meal and reactively because politicians cannot be re-elected

if we are in a depression. The world's political leaders will not ultimately fail us, nor will they inspire us with decisively correct solutions, but they will muddle through in the grand political tradition. Clearly, this is not my preference but it is the most likely scenario, and it can be managed around.

So, here's what I expect will happen going forward:

- ◆ **We are in the midst of a world-wide economic recovery, perhaps one third to halfway through. Be patient. It will take time.**
- ◆ **The balance of the recovery will continue to be choppy. Expect both good news and bad news on a regular basis.**
- ◆ **The recovery will be slower than normal.**
- ◆ **Sovereign debt issues will bubble up periodically (Greece, Portugal, Spain, Ireland, US. See graph on page 4) and should be watched closely but not particularly feared.**

◆ **Commodity prices will be volatile as the US devalues its currency.**

I think the nature of this global recovery means that although there will be a multitude of profitable niches to exploit in the markets, selectivity in both the sector and individual stock will be critical. The old "buy the S&P 500 and hold it" strategy may well prove disappointing. I think that risk control will also be a more important concept as we move along this bumpy road of recovery. Whether it be varying cash levels in all stock portfolios or maintaining proper asset allocations in balanced portfolios, concern for what could be lost as well as what can be made will be critical for success. In the credit markets, paying close attention to average maturity levels and credit quality will also pay rewards.

If we understand that the road ahead has pot holes we can be vigilant about trying to avoid them. This will allow us to take appropriate risk when the reward possibility exists.



Questions On Your Mind

What is keeping you awake at night?

Here are a few of the common questions that we get from existing and prospective clients. Through planning and analysis we can help you resolve these issues, develop a game plan and (hopefully!) sleep better. Call us—the doctor is in.

- **Do I have enough money to retire? What should my savings plan be?**
- **Do I have the proper risk/reward mix and asset allocation?**
- **How does Sokolowski Investment Advisors invest in a volatile market?**

MARKET TALK

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Wealth Management & Financial Planning



Previous issues of Market
Talk available on our
website-
www.siawealthadvisors.com

A Valuable Lesson *by Michael Reynolds*

When thinking about writing an introductory article for the newsletter, I recalled the day that I received a valuable lesson about saving money and investing. Let me start at the beginning.

It was summer and I was working at the Manchester Country Club as a caddie. One of the golfers in the foursome was the president of a national bank. My teenage goals were modest. I spent my mornings hoping to make some money caddying and my afternoons playing golf. On this day, the two golfers were discussing finances and their good fortunes investing in the stock market. Rather innocently, I asked the bank president, "what do you have to do to become a millionaire?" He smiled and told me about the 10% rule: "For every dollar you make, put 10 cents in the bank." I remember thinking that it was going to take a lot of 10 cents to get to a million dollars, and I guess I voiced my skepticism. The bank president went on to explain that I had to think of this money as a savings and investment account. I couldn't take the money and spend it; it was strictly for investment purposes. He assured me that if I started saving 10% of all my earnings that the savings account would add up quickly.

The lesson continued. He went on to explain com-

pound interest, and said that once my savings grew large enough that I could start investing in the stock market. I admit that much of what he said went over my head. However, I do remember thinking, "I can save 10% of what I make" and I did open a savings account! At the time it was actually quite easy. I didn't have a lot of expenses and it was exciting to see my account balance grow.

When I went off to college I was still interested in making money and I took some courses in financial management and the stock market. At this point I decided the time had come for me to open a brokerage account and start buying stocks. As I got older and started a family it wasn't quite as easy to save, but I found that automatic payroll deduction helped me keep on track. This is a lesson that I have tried to teach my children, and someday I hope to teach my grandchildren. Begin the habit of saving early, and continue throughout your life.

Savings and investing go hand in hand. I count myself as fortunate to have learned this lesson early in my life. Not only has it helped me personally, but it has permanently shaped my career.



Michael Reynolds
Portfolio Administrator

Introducing Mike Reynolds

We are very pleased to announce that Michael Reynolds has joined us as Portfolio Administrator. Mike brings a wealth of experience to our team. Originally working in banking, he began his career at the Merchants Bank where he worked for over 20 years. Over this period Mike held positions of increasing responsibility culminating in his managing their Discount Brokerage Division. When Charles Schwab opened an office in Burlington in 1999, Mike was recruited by them for the job of Investment Specialist. Working with clients and helping them design portfolios was always Mike's passion. In 2004 the Burlington office of Schwab closed, and Mike became an Investor Advisor Representative for Hanson Investment Management in Burlington. Read more on Mike's introduction to investing in "A Valuable Lesson".

Mike's talents will be put to good use here. As Portfolio Administra-

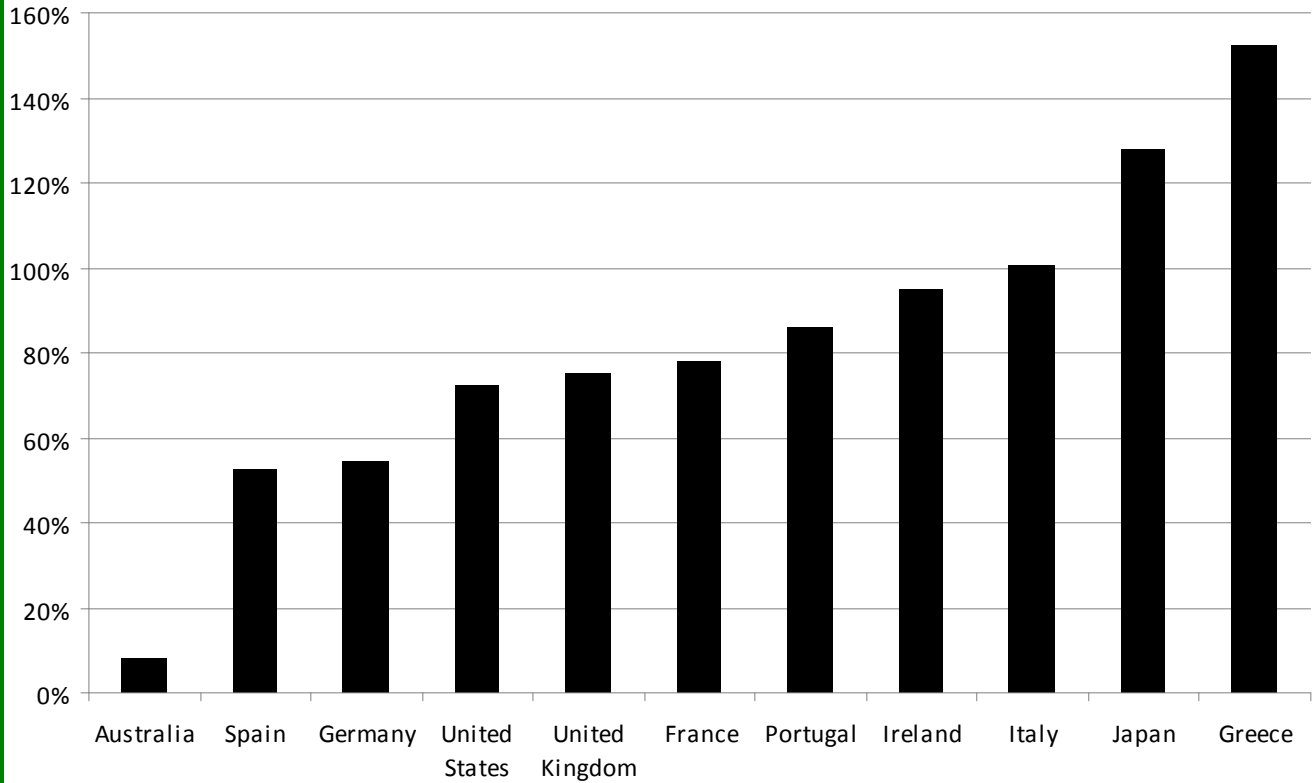
tor, he will support Roy doing research, portfolio review and rebalancing. He will also provide operational support, and administrative backup to Pat, giving us with another layer of depth. Finally, his excellent people skills will be utilized to help us enhance client communications and develop new relationships.

Mike grew up in Manchester, Vermont but has lived in South Burlington for 26 years. In his spare time Mike is the proud father of three sons, ages 23, 22 and 20. A former youth sports coach, Mike enjoys watching all sports, particularly the Boston Red Sox and UVM basketball.

Please remember to contact Sokolowski Investment Advisors, LLC if there are any changes in your financial situation or investment objectives or if you wish to impose, add, or modify any reasonable restrictions to our investment management services. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.

Sovereign Worldwide Debt Comparison

Net Debt as a Percentage of GDP, Selected Countries



Source: International Monetary Fund, World Economic Outlook Database, April 2011

These data reflect 2011 estimates made by the IMF for both Net Debt and Gross Domestic Product (GDP). Net debt reflects a country's public debt minus its financial assests.



The greatest compliment that we can receive is a referral from our valued clients. Please let us know if you have a friend or family member who could use our services. We will treat them with the care that they deserve.