

**Global Financial Market Perspective (Executive Summary)**

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***Second Quarter Highlights***

- Market sentiment turned from bullish to bearish.
- Sovereign debt concerns in Europe caused a retreat from risk assets, prompting a decline in equity markets.
- Bonds, gold, global trading, and multi-strategy hedge funds performed well on a relative basis.
- Globally, economic growth slowed, dampening the prospect of a V-shaped recovery.

***Global Financial Markets: A Change of Heart***

The second quarter of 2010 performed in direct contrast to the first quarter of the year. In the first quarter, global financial markets focused on the hope of a V-shaped recovery and investors traded into risk assets with hopeful enthusiasm. In the second quarter, however, investors swiftly shifted their focus to worries of sovereign defaults, slower global economic growth, fiscal constraints, financial regulation, and another potential housing decline in the United States. The quarter ended with a downward revision of expected growth in China; the failure of the European Central Bank to auction fixed-term deposits at the expected low rates; a downbeat statement from the U.S. Federal Open Market Committee; and a downward revision of U.S. first quarter GDP growth. Global market performance was affected by several key events (including the Goldman Sachs fraud case and the BP oil spill), but European sovereign debt crisis stood at the forefront of investor concerns. Developed economies in the Euro area account for 15% of worldwide GDP<sup>1</sup>; certainly, a slowdown or potential double-dip would be felt in other markets.

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<sup>1</sup> European Central Bank.

In light of the many economic challenges currently facing the world, GenSpring has consistently recommended that families position their portfolios relatively conservatively. The economic challenges we have discussed in previous communications as the basis for our advice are coming into focus and caution remains the watchword. We must continue to realistically and unemotionally assess the possible economic outcomes ahead and consider family goals and objectives when making investment decisions.

### ***World Recovery: The Need for Robust Private Demand and Available Credit***

During the second quarter, European leadership shifted from a stimulus-oriented mindset to a belt-tightening mindset; the United States continues to advocate a spend-to-stimulate-growth approach. Governments that are running high deficits and facing slowing economies find themselves in a dilemma. If the stimulus is removed too early and austerity measures are too severe, economies risk a double-dip recession. On the other hand, if further stimulus is put in place, investors may lose confidence in the economy's ability to recover without government spending. This can trigger a flight to quality and the debasement of currencies and risk assets. The catalyst for sustainable, robust recovery is the return of vibrant investment and consumption by both companies and individuals to fill the void left by the removal of government stimulus programs and lower credit availability from banks. While U.S. companies are holding significant amounts of cash and paying down debt, consumer confidence is beginning to wane again, retail sales data is coming in weaker than expected, and overall consumer credit outstanding is decreasing. All of these factors indicate that consumers are unlikely to fill the aforementioned void, at least in the near term.

### ***Positioning Assets and Allocation Recommendations***

The long-term challenges faced by the domestic and international economies should not be ignored, and our portfolio guidance continues to reflect these challenges. Though we have recommended that families consider less exposure to equities, as markets further weaken, we closely monitor valuations in relation to macroeconomic data, and analyze and debate attractive levels for potentially increasing exposure.

In early June, GenSpring held its quarterly Investment Committee Meeting. The general consensus among committee members was that risks remain high in the equity markets due to uncertainties in Europe and the United States. Thus, while valuations became more attractive in the second quarter, the smart approach at this time is to maintain a cautious stance and wait to substantially increase exposure. The committee considered several metrics that may bode well for equities, and our recent valuation analysis of the S&P 500 shed some further light on our consideration to increase exposure to equities. The S & P analysis indicated that equity valuations are not cheap and still do not reflect the macro challenges we face. If valuations become more attractive, however, this will create a good opportunity to own high quality, multi-national companies.

While we are keeping a watchful eye on public market valuations, GenSpring's private equity team is finding attractive valuations and compelling investment opportunities in private equity transactions. As a result, we have committed to two co-investments this quarter that we believe have attractive risk adjusted return expectations that warrant the investment.

Our recommendations for portfolio positioning this quarter remain nearly unchanged from the first quarter.

- The longer-term risk of higher interest rates and inflation are significant. Thus, allocations to fixed-income securities should be limited to high quality and the amount needed for defensive allocation or income needs for each family's particular circumstance.
- Continue to emphasize dynamic manager exposure (long/short equity, multi-strategy, and global trading) as the economic recovery and market valuations become more in sync, and as monetary and fiscal policy challenges are better understood. Dynamic managers will have the ability to maneuver more easily to help manage the risk in the underlying portfolio positions while retaining competitive risk- adjusted return characteristics.
- From a long-term allocation perspective, we continue to recommend families build an overweight position in emerging markets. These countries continue to increase their share of the global economy, increase their standard of living, consumption, and strengthen their financial positions. Moreover, their fiscal

balance sheets are healthier than those of developed nations with escalating debt from budget deficits.

- We expect that corporate restructuring and mergers and acquisitions will continue to increase, providing good investment opportunities for many of the hedge fund managers focused in this area.
- Families should maintain a position in gold as a hedge against both currency devaluation and inflation. Inflation is a viable threat if governments of developed economies begin to monetize debt. Gold has historically held its value in inflationary scenarios, and it can also be used as an insurance policy against currency crises, war, and policy extremes.

Keep in mind that investor constraints, preferences, and/or wealth planning objectives affect the application of these guidelines; thus, you should always discuss them with your GenSpring advisor.

We encourage all of our families to work with their GenSpring service team to make informed decisions about their portfolios and the guidance we offer. We continue to believe that a prudent risk-management approach will prove to be the sound financial plan over time.

### *Disclosures and Definitions*

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**Benchmarks and indices:** The valuation information presented for the various indices is available from public sources. GenSpring makes no representation as to its accuracy. Comparisons between a composite and an index are unreliable as performance indicators and should not be considered indicative of the actual performance to be achieved in a particular managed account.

**S&P 500 Index:** The S&P 500 consists of 500 widely held common stocks, consisting of four broad sectors (industrials, utilities, financial and transportation). It is a market-value weighted index (stock price times shares outstanding), with each stock affecting the index in proportion to its market value. This index is a total return index with dividends reinvested.