



**WHM Capital Advisors
1st Quarter 2011
Client Report
Investment Commentary**

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<i>Index Performance:</i>	<i>Index</i>	<i>1st Quarter</i>	<i>YTD 11</i>	<i>12 mth</i>
<i>Dow Jones Industrial Average</i>	12,320	6.34%	6.34%	13.48%
<i>Standard & Poor's 500</i>	1,326	5.42%	5.42%	13.42%
<i>Salomon Bros Govt/Corp Bond</i>	1,180	0.31%	0.31%	4.78%

Complete WHM Capital Advisors Composite Data is available by contacting the firm.

"Clouds gather, but will it rain?"

Equity markets in the 1st Quarter of 2011 rose significantly, with the S&P 500 up by over 5%. The economic recovery seemed to be taking hold and investors moved increasing levels of cash back into global equity markets, even as global risks seemed to be increasing throughout the quarter. Most investors seemed to be following the age old practice of buying what they wish they'd bought. The question at hand now is; how much room is left to run for those investors to experience any upside movement?

As the quarter drew to a close, a massive earthquake and tsunami rocked Northeast Japan and revolutions in North Africa and the Arabian Peninsula were growing increasingly violent. The larger story is the increase in oil prices during the month of March. It is easy to assume that the increase is driven by unrest in the Middle East. However, even with Libyan oil production disrupted, meaning 1.6 Million fewer barrels per day in the queue, Saudi Arabia has committed to keep overall supplies level. Given this lack of risk in the short-term supply levels, the greater issue in oil prices is the continued growth of oil consuming economies. The growing energy requirements of these countries indicate that a global recovery is in fact in place and that deflationary pressures have subsided.

Further evidence of the recovery was seen in the increases in interest rates by central banks in China, Europe and South America. Yield curves globally steepened as investors signaled expectations of inflation, continued economic recovery, and future rate increases. U.S. Federal Reserve policymakers, however, have kept interest rates at historic lows. Chicago Federal Reserve Bank President Charles Evans recently spoke at the University of South Carolina saying that there are no signs of inflationary pressures in the U.S. and that the mandate to create jobs currently outweighs the mandate to tame inflation. These comments give rise to concerns that the Federal Reserve will be too late with increases and that a weak U.S. Dollar will contribute to even higher commodity prices. The Federal Reserve policy of purchasing U.S. Treasury debt is scheduled to end in June and many wonder what the impact will be on capital markets once the easy money stops flowing.

Despite these risks to the recovery, employment numbers have shown improvement. According to the March labor report, unemployment declined to 8.8% and the economy added 216,000 jobs. This improvement signals that the lagging indicator of employment is beginning to show improvement and that the Fed may not be able to justify the current low interest rates for an extended period into the future. Nonetheless, jobs improvement will provide additional emotional stimulus in terms of consumer sentiment and spending patterns.

Manufacturing continues to show strength as a leader in the recovery. Producer prices have begun to show increases as commodity and energy prices have risen. It will be hard for corporations to avoid raising prices on products given the increases in costs. Interestingly, labor costs have stayed low given the employment situation, meaning that the majority of the growth in cost inputs has come from higher commodity prices.

Housing has been on a continued slide, however. New home sales have fallen sharply and existing home prices dropped to their lowest level since 2002. Housing now represents only 2% of U.S. GDP, down from 6% at the peak, although improving employment numbers should help improve the outlook for this sector going forward. The issue at hand seems to be the availability of credit for buyers for whom higher down-payments are now required by lenders.

The mixed outlook in the global economy will produce volatile markets, but corporations generally are well-positioned to weather any rough spots. With strong balance sheets and high levels of productivity, global businesses are taking advantage of continued strong global growth, particularly in emerging markets. High levels of cash are already being deployed in increased mergers and acquisition activity and we expect this trend to continue as larger players seek to buy innovation from smaller players. The largest risk to earnings and shareholder cash flow is the increasing price of commodities and the likelihood of higher tax expense as governments in developed markets seek to reduce sovereign debt.

In the 1st Quarter, portfolios benefited from exposure to the Industrial sector as those companies outperformed the overall market. Also, Energy sector holding, Noble Energy Corp (NE, NYSE) led the sector as drilling names recovered and Noble won new contracts. Exposure to small-cap and commodities also proved helpful.

In Fixed Income we continue to maintain very short durations given the anticipation for rate increases and declines in bond prices. Municipal credit is of concern also as governments struggle to find ways to make ends meet.

WHM Capital Advisors is a financial advisory firm providing research, analysis and advice to a diversified global client base that includes institutions, corporations and high net worth individuals. Founded in 2002, the firm's areas of expertise are in valuation consulting, succession planning, mergers and acquisitions advice and investment management. In addition, the firm has a related technology company that designs applications to analyze complex financial issues for clients.

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