



**WHM Capital Advisors
1st Quarter 2010
Client Report
Investment Commentary**

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<i>Index Performance:</i>	<i>Index</i>	<i>1st Quarter</i>	<i>YTD 10</i>	<i>12 mth</i>
<i>Dow Jones Industrial Average</i>	<i>10,857</i>	<i>4.11%</i>	<i>4.11%</i>	<i>42.69%</i>
<i>Standard & Poor's 500</i>	<i>1,169</i>	<i>4.84%</i>	<i>4.84%</i>	<i>46.52%</i>
<i>Salomon Bros Govt/Corp Bond</i>	<i>1,126</i>	<i>1.55%</i>	<i>1.55%</i>	<i>6.83%</i>

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

"Back from the abyss"

It is hard to believe that a year ago, equity markets were at the bottom of the trough and beginning their steep climb to the current levels. This tremendous recovery in equity markets has yet to be seen to the same degree in the overall global economy and risks still exist even as data suggests the worst is behind us.

U.S. job recovery is in the works as key labor reports show improvement in jobs, with 162,000 added according to the March data. Consumer spending is also recovering with an almost 10% increase in consumer spending year-over-year. Both of these factors should show up in improved earnings of corporations. Manufacturing activity continues to increase as well with eight straight months of expansion according to the Institute for Supply Management. Although concerns persist over U.S. unemployment levels at just under 10%, employment gains tend to lag these other indicators of recovery.

Employment is likely to lag even further in this recovery cycle as employers squeeze every ounce of productivity out the existing workforce to offset the risk of slow growth and tight commercial credit. The employment situation is likely to weigh on the minds of policy makers at the Federal Reserve as they consider removal of monetary support and the raising of interest rates. Any increase in short-term rates can have a significant effect on the sustainability of the recovery although waiting to long to begin raising rates can have unintended consequences of an over-heated economy and inflation.

Indeed, public policy risks are some of the greatest risks investors and overall economies face at this point. Government debt continues to mount and deficit spending seems to be in the plans for the foreseeable future. Levels of debt as a percentage of GDP are growing globally (Greece being the current example in the news). Tax rates in developed countries are likely to continue to rise with the U.K. recently raising its top income tax rate to 50%. The global economy may be recovering, but lack of fiscal discipline in a slow growth environment may dampen the recovery.

Housing is still a fragile situation in the U.S. economy. Already, 10-year U.S. Treasury yields are rising with concerns over inflation and government debt which means that mortgages will become more expensive in the near term. The increase in mortgage financing costs can lead to increases in defaults and further pressure on credit markets. Commercial banks will also continue to struggle as they wade through their commercial real estate portfolio delinquencies. Credit is unlikely to return to the free-flowing levels of 2005-2006 meaning a slower growth global economy over the next few years.

The U.S. Dollar has been strengthening versus other world currencies on impressions of soundness in the U.S. economy. This indicates that commodity prices are likely to be lower in the near future since they are generally denominated in U.S. Dollars. This price movement will act as its own stimulus as producer costs diminish leading to stronger earnings results. On the other hand, Dollar strength is likely to hurt U.S. exports as companies who have increased levels of revenue from overseas markets feel the pricing of their goods and services increase against global competitors. Overall though, the Dollar strength and increases in U.S. equity markets are a good sign of sustainable recovery.

Many who missed the market uptick over the last year will be tempted to now put cash into equity markets. Many will jump on the bandwagon despite a fairly valued market in terms of current earnings projections. However, earnings surprises are likely given the improvements in economic conditions. As the market has run up, it is interesting to note that the current level of the S&P 500 is equal to the level at the same point in 1998 and still below the level prior to Lehman Brothers' collapse in 2008.

Bond market risks are seemingly ignored as low cash yields force income seekers to move in that direction. In fact, our recent Chart of the Week entitled, "Chasing Yield in a Low/Rising Rate Environment, Part I," showed that this trend is also occurring in fixed income markets as cash flows into bond funds have increased dramatically over the last year even as risk of higher rates presents danger for bond investors. The dilemma of investing in this climate is best navigated with a long-term strategy and a system to select sound investments and a discipline for rebalancing to counter spikes in volatility.

In the 1st Quarter 2010, our portfolios benefited from broad exposure to domestic and international equity markets. In particular we experienced significant gains in Financial sector names Goldman Sachs (GS, NYSE) and BB&T (BBT, NYSE). Technology holdings Apple (AAPL, NASDAQ) and eBay (EBAY, NASDAQ) were also standouts. Small-cap exposure also added to equity gains for the quarter. In bonds, we continue to maintain short durations on our fixed income holdings given the potential for increased interest rates.

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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