



**WHM Capital Advisors
2nd Quarter 2010
Client Report
Investment Commentary**

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<i>Index Performance:</i>	<i>Index</i>	<i>2nd Quarter</i>	<i>YTD 10</i>	<i>12 mth</i>
<i>Dow Jones Industrial Average</i>	<i>9,774</i>	<i>-9.97%</i>	<i>-6.27%</i>	<i>15.71%</i>
<i>Standard & Poor's 500</i>	<i>1,031</i>	<i>-11.80%</i>	<i>-7.53%</i>	<i>12.15%</i>
<i>Salomon Bros Govt/Corp Bond</i>	<i>1,161</i>	<i>3.09%</i>	<i>4.68%</i>	<i>8.43%</i>

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

"Lost in the noise"

Any optimism about the global economy and equity markets seemed to evaporate in the 2nd Quarter as money continued to flow to bond fund investments and equity prices took a beating. Even as investors and the media viewed the possibility of a "double-dip" recession, any data showing improving conditions was largely ignored.

Some retreat in equity prices had to be expected given the sizeable run up in valuations over the 12 month period from March 2009 through March 2010. Investors consolidating gains turned downright pessimistic as the quarter progressed. Money managers began to move increasing amounts of money out of equity positions and into cash and bonds despite the historical low interest rates available. Levels of cash continue to stay high globally even as signs of economic recovery abound.

As we have discussed previously, interest rates are unlikely to stay low for an extended period of time, but global policy makers have been vocal about their distaste for raising rates in the near-term with the fragile economic environment. Because of the rear-view nature of central bank policy, changes in interest rates always happen "late". While there is a significant amount of attention on employment numbers in the U.S. as an area of concern, there are other indicators that represent a healthy economy, although one with a slower growth pattern than most equity investors would like to see.

Some of the clearest indicators are the spreads between various interest rates. The interest rate spread between what government and corporate bonds pay is narrowing, indicating lower attitudes of risk about the health of corporations. In addition, the LIBOR rates (paid for short-term loans between banks) continue to be significantly lower than just before the recent recession. Generally, yield curves continue to steepen, indicating expectations of long-term economic growth.

The interest rate indicators also tell the investor something about attitudes about government risks. As with the recent Greek crisis, the more chronic risks may not be with

corporations, but with governments that continue to borrow even as private companies have paid down debt. The recent moves by the E.U. and G-20 countries to enact "austerity plans" indicate awareness by policy makers that they may be on a collision course with economic meltdown. The risks that go along with continued overspending are higher taxes and increased regulation of business and industry and these risks seem to be holding back equity markets far more than raw economic concerns. In fact, these government risks are more likely to be felt in currency values than in corporate earnings. As we become more globally connected, tax and spending policies will be evaluated on a more competitive basis by companies making decisions on business models and domiciles. This competition will force governments to examine fiscal and regulatory policies more closely or risk losing economic growth opportunities.

Though these risks may be keeping equity investors on the sidelines at the moment, those investors seem to be overlooking positive data indicating a solid economic recovery. Inventories continue to rise, meaning that companies are spending to restock, but the ratio of inventory-to-sales is still very low with inventories increasing 2% YTD while sales increased 4% over the same period. This indicates that healthy production is likely to continue. In addition, although media has beat the drum about unemployment, initial jobless claims have continued to fall and average weekly work hours have continued to rise since the end of the recession. Coupled with the inventory factor, this shows that productivity growth has been strong.

These gains in productivity are likely to translate into continued improvement in corporate earnings. Earnings surprises in this environment will benefit those investors who have patiently invested in equities even in the current downturn. In the mid-term, large-cap companies have done a very successful job of raising cash and paying down debt, given them opportunities to capitalize on a slower growth environment. Smaller companies dependent on bank debt are still likely to face risks as bank lending is likely to stay depressed as real estate concerns continue to pervade bank portfolios.

In the 2nd Quarter, our portfolios benefited from exposure to alternative investments in currency and commodity investments, but equities in general had a dismal quarter. Companies such as McDonalds (MCD, NYSE) and NextEra Energy (NEE, NYSE) held their own. The real winner for the quarter was fixed income. Our diversified bond portfolio had significant gains. Bond inventories have become scarce given the large amounts flowing into funds that must then invest that cash in a bond market where corporations and governments are trying to move away from borrowing. We continue to maintain short durations on our fixed income portfolio given the anticipation of higher 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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