



**WHM Capital Advisors
3rd Quarter 2011
Client Report
Investment Review and Commentary**

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<i>Index Performance:</i>	<i>Index</i>	<i>3rd Quarter</i>	<i>YTD 11</i>	<i>12 mth</i>
<i>Dow Jones Industrial Average</i>	10,913	-12.09%	-5.74%	1.16%
<i>Standard & Poor's 500</i>	1,131	-14.33%	-10.04%	-0.84%
<i>Salomon Bros Govt/Corp Bond</i>	1,234	2.43%	4.92%	3.44%

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

"Are we overstating the problem to our own detriment?"

Global equity markets ended the 3rd quarter with a significant downturn as fears over economic slowdown increased. Central bankers in the U.S. and Europe warned about the high likelihood of slowing growth across both developed and developing markets. These types of concerns heightened negative sentiment already present in the minds of many investors. Throughout the quarter volatility in equity prices became painfully high with large intra-day swings that confounded market participants.

Volatility driven by sentiment masked much of the underlying productivity and financial health of large corporations. As was discussed in our Interim 3rd Quarter Commentary, (released on August 10) corporations, generally speaking are still in good health. Balance Sheets show high levels of cash and little if any debt. Inventory levels relative to sales are still at levels that indicate a sanguine outlook on the part of managers. It seems that we are in a period in which every piece of bad news is perceived to be extremely bad and in which any piece of good news is interpreted as fairly good – until bad news comes out again and the volatility continues. This lack of conviction on the overall direction of economic forces and corporate earnings creates high levels of uncertainty in markets.

The vacuum of political leadership in the U.S. contributed to the nervousness as it played out in the August debate over the U.S. debt ceiling. Investors began to feel that the U.S. might be just as vulnerable as Greece in terms of high levels of sovereign debt, and that the U.S. political system was deferring on any decisive action in spite of the rancorous debate over the dire state of the situation. It was at this point in August that investors lost patience and the downward spiral in markets began in earnest.

Sadly, this generally glum consensus ignores fundamentals. Despite the clamor over a potential U.S. default, investors exited equities and invested instead in U.S. government debt. With the increased demand in U.S. Treasuries, prices for those instruments increased to levels where the return for 10-year Treasury Bonds is only 1.9% *for 10 years of risk*, while 1-year T-Bills pay virtually nothing. Given that the average dividend for an S&P 500 stock is almost 3%, it seems investors have lost sight of the fact that equities are

surprisingly cheap and Treasuries are in a bubble state, particularly when comparing the balance sheets of corporations with that of the U.S. government.

Volatility though does make for painful day-to-day movements. Rebalancing frequently and systematically can actually make the volatility work for investors, but investors have to be willing to disregard sentimental moves up and down and look at data rather than news. With this thought, we have been thinking internally not as optimists, nor as pessimists, but as realists.

One of the realistic things we have been watching is the decline in commodity prices. With oil, gold, and other commodity prices taking a tumble along with equity prices, we have noted that this demonstrates a greater expectation of an overall slowdown in economic growth. A recession still does not seem likely though and, even as growth may slow, economies are still growing, and most public companies are still profitable. Economic headwinds exist in the continued problems with housing, banks, and unemployment and we are closely monitoring the effects of these concerns on quantifiable data related to capital market risk. Smaller companies will have a harder time getting credit for growth and unemployment is likely to stay relatively high for the foreseeable future. Global companies like those in public capital markets will have less exposure to these risks given the strength of their balance sheets.

Credit markets other than U.S. Treasury markets have continued to be fertile ground for investment as spreads between corporate bonds and U.S. government bonds have shown to be inefficiently pricing risks of corporate issuers. Given the strength of most non-financial issuers to pay debt, the interest rates paid here are a better deal than government debt instruments.

By reducing our exposure to the broad spectrum of equity markets and becoming more selective on holdings, we have been trying to avoid the high volatility and find opportunities that the market may be mispricing. Holdings in technology names IBM (IBM, NYSE) and Apple (AAPL, NASDAQ) held up better than the overall market. General Mills (GIS, NYSE), was another standout, but most equities, particularly Energy and Industrials sector holdings were a drag on portfolios.

Bond holdings, even as we were very picky and inventory was hard to find, were relatively solid performers and we took advantage of some opportunities to sell bonds that were at premium prices. We continue to be cautious given that all-time low in interest rates, but feel that the current climate doesn't indicate interest rate increases within the next 12 months.

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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