



***WHM Capital Advisors
Interim 3rd Quarter
Investment Review and Commentary***

By: William H. McAfee, Jr.
President and Chief Investment Officer

“Reports of equities’ death are greatly exaggerated”

Over the last week, we have seen significant moves in the global equity markets driven by increasingly negative sentiment. The key to understanding these moves is just that; they are driven by sentiment, not fundamentals. An increasing sense of insecurity among investors has been fueled by a halfway solved U.S. debt crisis (including no firm budget action) and downgrade by Standard and Poors of the U.S. debt rating to AA+ from AAA. Ironically, as equity investors have been selling, cash is moving into U.S. Treasuries which were just downgraded. Fundamentals overall are still strong although this is largely ignored in the news about the downgrade and ensuing market turmoil.

Specifically, global corporate balance sheets are still very strong with very low levels of debt, and high levels of cash. Corporate stock buy-back programs continue to be announced signaling that corporations believe their stocks are cheap. The transportation services index, released today (August 10), showed growth of 1.75% with growth of over 2.5% in the freight segment of the index. This index has a very high correlation to the direction of equity markets as would be expected given that it shows a key measure of current and future business activity. Unemployment is finally showing positive trends with this week’s data showing more jobs added than expected.

Even as this positive news shows that the economy and corporate attitudes are healthy, it has been largely ignored. The 10-year U.S. Treasury Note currently yields 2.1%, while the average dividend yield on stocks in the S&P 500 is 2.5%. This shows the current underpricing of equities. Moreover, unlike 2008, there are no significant spikes in interbank lending rates such as LIBOR that would indicate fundamental breakdown in institutional confidence in the economy or the financial system.

UBS released data that showed \$1.3 Billion of outflows due to retail investors selling stocks in their accounts as markets moved down on Monday. Institutions have been buying and volumes have been higher on the days with gains than on days with losses in equity markets. Sadly, retail investors generally don’t have enough money to be traders, but try to play the market based on timing up days and down days. Our approach continues to be investing, not trading, over longer periods of time based not on sentiment, but on fundamentals and data driven indications of relative financial health in order to meet our clients’ objectives. It is difficult to watch the turmoil (perhaps better said that it is difficult not to watch) but we are focused on understanding these drivers of relative financial and economic health. Given an examination of those factors, despite the reports you may hear, the patient is not dead.

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.

Contact: William McAfee, Chief Investment Officer
The Tower at 1301 Gervais St., Suite 1920
P.O. Box 7426, Columbia, SC 29202
803-799-1301
www.whmca.com