WHM Capital Advisors
3rd Quarter 2010
Client Report
Investment Commentary

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Index Performance:	*Index*	*3rd Quarter*	*YTD 10*	*12 mth*
Dow Jones Industrial Average	10,788	10.37%	3.45%	11.08%
Standard & Poor's 500	1,141	10.67%	2.33%	7.95%
Salomon Bros Govt/Corp Bond	1,193	2.77%	7.58%	7.84%

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

"Catching up on slow growth"

After a dismal summer of returns in equity markets, September gave investors hope that recovery was in fact taking hold. In fact, returns in U.S. Equity markets were the best for any September in 71 years. Equity markets seem to have new life even as cash continues to flow into U.S Treasury investments in spite of historically low yields.

This optimism in equity markets reflects the reality that corporations are healthier than the news on economic data would otherwise indicate. Balance sheets and earnings forecasts are stable and corporations continue to produce high levels of cash flows. Business spending is healthy and inventories are beginning to return to relatively normal levels showing the positive outlook among corporations.

While it appears that corporations are thinking the worst is over, those businesses had actually been preparing to weather a storm for at least a year prior to the recession. Thus they are able to take advantage of the economic uncertainty where other less prepared businesses are not.

Several issues contribute to the continued uncertainty. Concern persists over unemployment and its effect on the U.S. consumer. However, employment figures are a lagging indicator of economic health and we are likely to be well into the next phase of economic growth before employment improves. At that point it will be too late to use employment as an actionable indicator of economic or corporate health. In addition, the U.S. consumer is less of a driver of corporate profits than had previously been the case. Producers of goods and services are increasingly focused on global consumers, particularly in markets such as China and India where a large group of the global population is moving into the consumer class. This effect is also driving capital to those markets in larger quantities.

Real estate and housing are likely to continue to be concerns in the U.S. and other developed markets for the next couple of years but this presents a bigger problem for banks and those smaller companies dependent on banks for capital than on large producers. The effect of this will be a slow growth pattern in developed economies. Banks are unlikely to have stable earnings until the real estate market stabilizes as well. This issues as well as unemployment is likely to force central bankers to maintain lower than normal rates which may cause inflationary effects in spite of slow growth.

One of the offshoots of the positive outlook and stable cash flow of large global companies is the increase in mergers and acquisitions. As these companies look for growth opportunities and innovations, they will put capital to work in the purchase of smaller players. Much like in the 1980's, this can get capital moving despite the unemployment and real estate issues and is likely to lead to increased equity valuations across the board. Because the world and its capital markets are more closely linked than in any prior period, the increase in merger activity is likely to accentuate the growth of global capital flows and higher global valuations.

One of the continued risks to these positive trends is the potential for governments to implement protectionist measures to counteract these flows of capital. Any such measures are likely to lead to not only a diminishing of the global recovery, but to greater geo-political risks as well.

In the 3rd quarter, our portfolios benefited from an increased overall allocation to equities. In particular, portfolios benefited from Industrial Sector holding Potash (POT, NYSE), which was a beneficiary of the aforementioned acquisition activity as mining company BHP Biliton (BHP, NYSE) entered into a takeover fight for the company. Industrial holding Air Products (APD, NYSE) also provided good returns; again pointing to the improving economic story Financials continued to perform poorly as that sector is subject to high levels of uncertainty in the future. Exposure to developing markets also showed good gains.

In fixed income, we benefited from moving to more individual corporate bonds that have come back into favor, as opposed to broad exposure in funds of bonds. This continues to represent the thought that broad bond markets will suffer as rates eventually rise as well as the idea that corporate bonds have been generally underpriced relative to their risk. In addition, foreign bond exposure created gains for the portfolios as the quality of those bonds improved and the dollar weakened.

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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