



**WHM Capital Advisors  
4<sup>th</sup> Quarter 2010  
Client Report  
Investment Commentary**

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| <i>Index Performance:</i>           | <i>Index</i> | <i>4th Quarter</i> | <i>YTD 10</i> | <i>12 mth</i> |
|-------------------------------------|--------------|--------------------|---------------|---------------|
| <i>Dow Jones Industrial Average</i> | 11,578       | 7.32%              | 11.02%        | 11.02%        |
| <i>Standard &amp; Poor's 500</i>    | 1,258        | 10.20%             | 12.78%        | 12.78%        |
| <i>Salomon Bros Govt/Corp Bond</i>  | 1,176        | -1.41%             | 6.07%         | 6.07%         |

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

*"Anticipation of good things to come"*

The fourth quarter of 2010 showed increasing signs that equity markets and the underlying companies are healthy. With markets rising back to levels not seen since 2003, sentiment began to turn positive and investors once again saw equity investments as being worth the risk.

For eight straight months investors had net withdrawals from U.S. equity mutual funds, but inflows to equity mutual funds finally began again in December, with \$335 Million being moved into equity funds in the 3<sup>rd</sup> week of December, according to the Investment Company Institute. This seemed to be a reaction to the significant gains in equity markets in the previous two months.

However, signals were certainly present in the months prior to the 4<sup>th</sup> quarter that the global economic environment and particularly that of the U.S. was in good shape and that equities were generally under-valued. As we had been saying for some time, corporations are healthier than they have been, with stable earnings, low levels of debt and high levels of cash. In fact cash levels at corporations have continued to increase and now are at greater than 7% of assets according to the U.S. Federal Reserve. In addition, the household savings rate is now at 6% and household debt levels are back down to levels not seen since 1985. Corporations and consumers have increasing room to take risks and invest.

Employment, which has been the problematic indicator over the last 2 years, began to show signs of life, with jobs growth in the U.S. of 1.1 Million jobs in 2010. While this is not enough to register on the political radar, this is a positive sign that the worst of the economic woes appears to be over.

Other economic indicators had also been steadily improving but indicated additional levels of improvement in the 4<sup>th</sup> quarter. Yields began to rise on U.S. Treasuries, showing that investors were beginning to prefer riskier assets. This was helped by monetary policy at the

U.S. Federal Reserve, but this may have simply sped up a reaction that seemed to be inevitable. The yield curve had been steepening for some time, indicating expectations of future economic growth and spreads between corporate and government bonds had been decreasing; another sign of improved investor sentiment. We had been noticing for all of 2010 that equity risk premiums (basically, the amount of excess return available for equity investments versus U.S. Treasury investments) had been at dramatically high levels. Additionally, our process for measuring company specific risks had been indicating that these risks were less than the market was noticing as corporations generally had very stable results with little financial risk. Indeed, as has been discussed in earlier commentary reports, many corporations have positioned themselves for growth by selling more goods and services in emerging world economies.

All these indicators stayed positive in spite of the many geopolitical concerns around European economic woes and Asian power struggles. Regulatory and capital issues associated with banks in both the U.S. and Europe continue to be a major risk, although banks seem to be showing signs that credit is loosening again. Housing markets will continue to lag as well in the U.S. as foreclosures still add pressure to home values. These and other potential issues still exist and warrant attention, but it appears now that none of these will dampen the increasingly positive sentiment as investors realize the good news about healthy economic drivers.

Given that we were noticing some of these signs throughout the year, we made several moves to increase portfolio exposure to equity markets in the 4<sup>th</sup> quarter. Our exposure to commodity markets helped as well. In particular, our exposure to an Exchange Traded Fund in precious metal Palladium (PALL, NYSE) helped overall portfolios as well as individual equity holdings in outperformers such as Nike (NKE, NYSE), Accenture (CAN, NYSE) and Oracle (ORCL, NASDAQ).

In Fixed Income sections of portfolios, we were hard pressed to find returns as yields continued at historical lows. We looked to Master Limited Partnership holdings for exposure to higher yielding opportunities. These MLP's are tied to commodity movement (for example, natural gas pipelines) and provided a good alternative to bonds. We have kept bond durations short and believe that this will pay off as yields increase over time. Corporate bonds in the portfolio have been increasingly attractive too as credit risk has diminished. We continue to look for income producing opportunities while understanding that seeking overall returns with a blend of equity and fixed income investments is a good position for most investors in this climate.

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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