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Fourth Quarter 2011

ARS Insights

ARS Wealth Advisors

Registered Investment Advisor

Index Returns
Third Quarter 2011

S&P 500	-13.9%
Dow Jones Industrial	-11.5%
Russell 2000	-21.9%
EAFE (Int'l Index)	-19.0%
Barclays Cap Agg. Bond	3.8%
DJ-UBS Commodity Index	-11.3%

"All the perplexities, confusion and distress in America arise, not from defects in their Constitution or Confederation, not from want of honor or virtue, so much as from the downright ignorance of the nature of coin, credit and circulation."

John Adams

Turbulence — Tony Anderson, President

The sharp volatility in the markets during August and September served as a reminder that when investing you cannot separate Risk from Return and that the two go "hand-in-hand". The economic data reported during the third quarter continued to point toward a slow-down of growth globally. In addition to the slowing economic growth, the debt problems ailing Europe and the incompetence of our leaders in Washington contributed to the poor market performance during the third quarter. While we have enjoyed a strong rally in the markets since the bottom reached on October 4th, we anticipate the volatility to continue and thus are maintaining our conservative bias.

A couple of areas that negatively impacted performance during the third quarter were our exposure to global bonds (TGBAX), our exposure to Canada (EWC), and our exposure to high yield bonds (STHTX). Despite the historically low yields on U.S. Treasury Bonds (~2.0% for 10 years), investors flocked to the U.S. Dollar as a perceived "safe-haven" as the situation in Europe continued to deteriorate. The strengthening of the U.S. Dollar relative to the Euro, contributed to the weak performance for global bonds during the quarter. Our Canadian stock exposure was adversely affected by the strengthening of the U.S. Dollar relative to the Canadian Dollar, as well as, indications of slowing economic growth globally. Canada's economy has heavy exposure to natural resources and commodities, which were hurt by the anticipated drop in demand for those assets.

We did have a few names that held up relatively well during the quarter, such as, General Mills, Kimberly-Clark, IBM, and Verizon, but

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Will Europe Find a Solution? — Kurt Ulrich, CFA

Many events of the past quarter held historical significance. The European Union representing approximately one-third of the global economy was (and continues to be) ravaged by sovereign debt issues. While this was unfolding U.S. sovereign debt was downgraded losing its AAA status. These two events caused fear to spread across all markets as investors retreated from everything except U.S. Treasuries. Despite being downgraded U.S. Treasuries still represent the most liquid and the safest global investment. Interest rates fell to all-time lows on U.S. debt as a result of this flight to quality and the dollar rallied. The fear of a global slowdown sent commodity prices tumbling along with related equities. The problems in Europe lead many to believe a recession there is imminent which could spread to the U.S. At this point economic data here in the U.S. appears strong enough to avoid a recession, but things could change quickly as events unfold.

U.S. stock markets suffered the worst quarter since 2008. The S&P 500 Index dropped nearly 14 percent for the quarter with over half of this drop occurring in September alone. Over 200 companies dropped at least 20 percent in price. Only three out of 94 country indices (Venezuela, Tunisia and Jamaica) were positive in U.S. dollar terms during the quarter, according to Bloomberg. The average return for the 9,402 mutual funds tracked by Morningstar was a negative 17.8 percent for the quarter. According to Lipper, international-stock and emerging markets funds dropped 20.5 percent and 23 percent for the quarter, respectively. (Source: *US Global Investors October 7, 2011 Advisor Alert, "Can Markets Find the Road Back to Positive Territory?" by Frank Holmes)*

Since the end of the quarter the market has rebounded in anticipation of solution for the European debt problems. Anything is possible but the odds do not favor Germany and France dumping huge sums into the European Financial Stability Fa-

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If you would like additional information about the services offered by ARS Wealth Advisors, please contact us at (727) 322-7681.

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Turbulence *(cont'd. from pg. 1)*

they weren't enough to fully offset the declines discussed previously. Given that the issues currently weighing on the market (slow economic growth, European debt, and Washington ineptitude) are significant and probably not going to be resolved in the short-term, we are maintaining a conservative bias, focused on quality. Many of the blue-chip names mentioned above, as well as others such as Pfizer, Johnson & Johnson, McDonald's, and CVS are trading at compelling valuations and offer dividend yields in excess of ten year U.S. Treasury Bonds, which we believe will generate attractive total returns.

After turbulent times, like the one experienced recently, it can be beneficial to sit-down and evaluate how your accounts are currently invested. In order for us to best position your portfolios, it is imperative that we have an accurate understanding of your goals, objectives and risk tolerance. Please contact our office if you would like to schedule a visit to go over our current understanding of your investment objectives, as well as review anything that may have changed.

We appreciate the trust you have placed in our firm and will continue to work diligently to meet and exceed your expectations. Please feel free to contact me directly at (727)322-7681, if there is anything we can do better serve you.

Tony Anderson, President

Will Europe Find a Solution? *(cont'd. from pg. 1)*

cility (EFSF) to accomplish a bailout.

Whether or not Europe avoids a major financial collapse, we are taking a defensive approach by selling most assets which have experienced the greatest volatility to concentrate on companies with rock solid balance sheets in stable businesses paying above average dividends. Interest rates along with US stock prices have retreated to the point that the yield on the average stock in the S&P500 is greater than the yield on the 10 year US Treasury Note. This is a fairly rare occurrence and history would indicate stock prices appear to offer above average long-term return potential at these levels. The one caveat to this statement is that rates may be artificially low due to Fed intervention.

Predicting short-term moves in the stock market on a consistent basis is virtually impossible. As a result it is imperative that investors focus on the bigger picture regarding attractive valuations, return potential and sizable dividends while waiting for irrational behavior to subside.

We will continue to work tirelessly to manage your wealth with prudence and remain committed to better understand the risks inherent in today's market environment.

Sincerely,
Kurt Ulrich, CFA

"And to preserve their independence, we must not let our rulers load us with perpetual debt. We must make our election between economy and liberty, or profusion and servitude." Thomas Jefferson

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