WEALTH ADVISORS

AN INDEPENDENT WEALTH MANAGEMENT FIRM

ECONOMIC AND MARKET UPDATE

FEBRUARY 2011

CURRENT ECONOMIC CYCLE

Early Expansion → Middle Expansion → **Late Expansion**

Late Contraction ← Middle Contraction ← Early Contraction

ECONOMIC NEWS

- The U.S. economy continues to show improvement, but there is a long way to go before conditions are close to normal.
- The labor market has stabilized, consumer credit is finally expanding, and retail sales are improving, but over 60% of Americans still think that we are in a recession.
- Confidence still remains the key to a sustainable expansion.

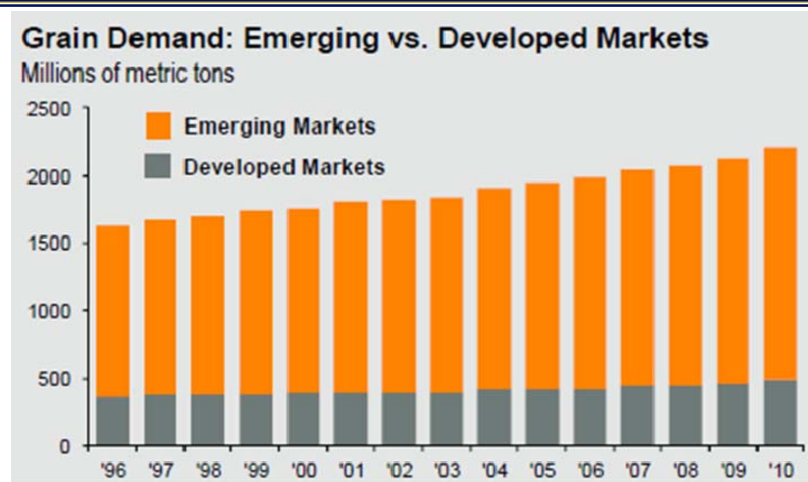
CURRENT ASSET CLASS ALLOCATIONS

Cash & Equivalents	*Underweight*
Fixed Income	*Underweight*
Equities	*Overweight*

MARKET TRENDS

- The U.S. equity markets have reached new highs and have returned to levels last seen in 2008.
- The bond markets have moved lower as interest rates have begun to rise as the initial signs of inflation are surfacing.
- The real impact of inflation is being seen globally as commodity prices have continued to go up, especially with food prices.
- Emerging markets have declined as credit tightening grows.

The Chinese government has increased interest rates and raised reserve requirements for their banks in an attempt to slow the growth of their economy and bring rising inflation, currently at 6%, under control.



The biggest story internationally has been the turmoil in North Africa and the Middle East as discontent with current regimes has taken to the streets. Many believe that the triggering event has been the sharp rise in food prices as demand in the emerging markets has continued to go up.

CURRENT THOUGHTS

The outlook for the U.S. and other developed markets appears to be good for the near term as earnings remain strong. Even though a correction could occur from the recent highs, the underlying strength of the momentum of the market should keep it from being severe. The emerging markets have not enjoyed the same success as inflation fears have led to monetary tightening, slowing the projected growth rate of these economies. Even gold and other commodities experienced a modest pullback before moving higher over the last two weeks. The rise in interest rates in the U.S. have not been dramatic, but the bond markets appear to be pricing in higher inflation and a falling dollar. With a budget fight looming, significant progress in reducing spending and the deficit is still in question. Restored confidence is directly linked to the outcome of these negotiations.

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