SWM INVESTMENT REPORT JULY 2011

STEWART
WEALTH MANAGEMENT

Stocks Offer best opportunity for long term growth

Coming into the half way point of 2011, there are major concerns that could impact the global economy negatively. Unemployment, budget deficits here, there, everywhere, Greeks lighting cars on fire, a trillion or so dollars in negative equity in US housing, pensions making promises they can't keep, to name a few. But, as long as corporations keep positive earnings momentum going, I look for the long-term trend of the market to remain up. Low interest rates are also supportive, and many stocks are very attractive on a valuation basis. The S&P 500 is selling at 12X 2012 earnings estimates, which is historically low. If we look at the 50 biggest companies in the S&P 500, there are only 6 of them that sell at a PE (price to earnings ratio) ratio of 15 or higher. And there are 16 of the 50 biggest companies that sell at a single digit PE. (ie. Hewlett Packard)

Within the stock world, we are overweight Asia, emerging markets, commodity related sectors, technology, and small/mid cap US stocks. Emerging markets have about half of world GDP but only about 14% of equity market capitalization. So over an extended period of time we believe investments like Vanguard Emerging markets (VWO) or Mathews Asian Growth & Income (MACSX) will grow at a higher rate than the US, but will also be susceptible to some corrections along the way, especially when their governments are tightening monetary policy to keep inflation in check. In the US, technology giants are trading with the lowest valuations since mid 1990's, and commodity related companies should benefit from prices moving higher in oil and materials. We are underweight International Developed markets, consumer related retail stocks, financials, and real estate investment trusts.

End of Stimulus?

Once Ben Bernanke announced the ending of QE2 (money printing) in late June, he remained uncommitted to a QE3 program or any further stimulus. . .In summary, he has created an artificial market that has yet to run its course on its own. The Fed's behavior has been aggressive to say the least, and the balance sheet has ballooned from 900 billion in 2008 to around 3 trillion today with various market policies to support the credit markets as well as equity markets.

"The reason for the vague language is that we don't know exactly how long it could take...The thrust of 'extended period' is that we believe we're at least two or three meetings away from taking any further action, and I emphasize 'at least.'"

Ben Bernanke, Federal Reserve Chairman, 6/22/2011

GTAA: Dancing until the Music Stops

Since money market is (risk free returns) essentially a zero return game, stocks offer the only opportunity for long term growth potential in the double digit range. Obviously our main goal is preserving and growing the real value of your money and in doing so we must take on some volatility. If we want to avoid volatility completely, then we would need to own 100% short-term fixed income like money market or Bank CDs.

As discussed in previous newsletters, there is a way to reasonably lower volatility and drawdown during markets trending down and participate in the markets when they are trending up. Global Tactical Allocation is an ETF designed for most baby boomers that have lower than normal risk tolerance. This tactical fund that stays invested in equities, but will go to cash should the markets dip below the 10 month moving average.

Why would we be overweighting tactical funds? Well, today the 10-year treasury yields less than 3%. That is one of the big reasons that we want to be underweight, long-term, fixed-income. As bond returns look to be mediocre at best in the next year, a focus on tactical market timing funds should provide better returns than bonds with similar price movement or drawdown. As phenomenal as Bill Gross is at managing bond portfolios, the environment we are in favors me to put more in tactical allocation.

CORE HOLDING SCORECARD

Ticker	Name	YTD to 7-1-2011	Comments
MACSX	Matthews Asian Growth & Income	2.19%	Asia is fastest grower in Global economy
PAAIX	PIMCO All Asset	5.16%	Well positioned income fund for this environment
VWO	Vanguard Emerging Markets Stock ETF	2.15%	Inflation worries hold back returns
PRPFX	Permanent Portfolio	5.24%	Gold & Silver Coins make up 35% of fund, 15% in Swiss franks and commodities
PTTRX	PIMCO Total Return Instl	3.12%	Limiting its exposure as rates are creeping higher
SGENX	First Eagle Global	6.10%	Buys unloved companies for 50 cents on dollar and waits, Deep Value Investing at its best
PGAIX	PIMCO Global Multi-Asset	5.41%	Seeks consistency and manages risk…
GTAA	Cambria Tactical	2.52%	Stays long sectors above 10 month moving average, DOES NOT BUY & HOLD
MDLOX	Blackrock Global Allocation	4.17%	Has been capturing 80% of market upside return and half of the downside…
WASYX	Ivy Asset Strategy	8.26 %	Gold, Apple and Wynn resorts are top holdings, all had great quarters
OAKBX	Oakmark Equity & Income	6.92 %	Invests in boring high profit companies that are less cyclical than the general economy

Aggressive Satellite Positions

- GNR-Natural Resources ETF
- NLY- Annaly Mortgage
- QQQQ-Nasdaq 100 index
- BRSIX-Bridgeway micro-cap
- VB,VO-Vanguard small cap & mid cap
- SIL, GDX,- Gold & Silver miner etfs
- EMC- EMC
- JAOSX-Janus Overseas

Conservative Satellite Positions

- RYBUX-Long-short interest rate
- PTSHX-Pimco Short Term Bond
- VWITX-Vanguard Tax-Free Intermediate Bond
- PFF- Ishares Preferred stock index
- BASIX-Blackrock Strategic Income
- MINT -Enhanced money market ETF
- SCPB- Ishares short term corporate

Moderate Satellite Positions

- HPQ-Hewlett Packard
- CVX-Chevron, XOM-Exxon Mobil
- JNJ-Johnson & Johnson
- PG-Proctor & Gamble,
- GE-General Electric
- AMJ-Pipeline Index
- BRKB-Berkshire
- FFTGX, FTEEX Forward Tactical
- DIS-Disney, AAPL-Apple

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