



303 Arlington Ave., Suite B3
Kensington, CA 94707

510.526.2220 Ext. 101
jason@jvituccifinancial.com
www.jvituccifinancialservices.com

Jason Vitucci, CFP®
Financial Advisor
Managing Director
CA Insurance Lic.: 0F59894

February 15, 2011

Mid-Quarter Client Update – 1st Quarter 2011

As of February 11, 2011 – very near the mid-point of the first quarter of the year – the Dow Jones Industrial Average was up 6.01 percent for the year and the S&P 500 Index was up 5.69 percent. Both the Dow and the S&P closed out the week ending February 11 at their highest levels since mid-June 2008. The current bull market rally has now entered the record books as the 12th *longest* bull market in the history of the S&P 500. Further, the 96.5 percent gain since the bear market low on March 9, 2009, is also the 2nd *largest* bull market gain in market history.

The month of January also turned out to be the best January in over a decade. Interestingly, the stocks that performed the *best* during the month are the same ones that performed the *worst* in 2010. CLS Investments, LLC, one of the professional investment managers that I work with, sees this as one of the indications that the investment environment may be beginning to change.

In 2010, investors were piling into emerging markets, as the asset class represented a source of growth. Now, many emerging market countries have begun raising interest rates to fight inflation and cool economic growth. Emerging market stocks are already in their eighth year of a bull market and, if history is any guide, this latest run should soon enter a maturing stage. Investors are therefore finding that the growth opportunities have shifted near-term toward the U.S. and northern Europe and away from emerging markets.

Many investors are wondering how long this underperformance in emerging markets might last. I believe it is primarily tied to two fundamental factors, which will need to change before the underperformance ceases:

- Central banks fighting rising inflation in many emerging economies
- Improving economic growth in the developed world

Since economic growth in the U.S. and northern Europe does not look poised to decline, it will likely take an easing in emerging market inflation and/or a sharp reversal in commodity prices for emerging market underperformance to reverse. That may not occur until later this year.

Wealth Management • Tax Planning • Investment Strategies

Securities and Advisory Services offered through First Allied Securities, Inc., a registered broker-dealer,
Member FINRA, SIPC., and a Registered Investment Advisor.

Additionally, I believe the following themes are emerging:

- Some bonds may produce flat to negative returns in 2011. CLS is therefore underweight these securities in its portfolios.
- The U.S. dollar could pressure commodity prices. With economic numbers starting to firm up, if we see improvement on the employment front, the U.S. dollar might strengthen, taking the wind out of the sails of commodities and international investments, particularly if emerging market growth continues to slow. CLS has therefore trimmed its clients' exposure to commodities.

We will continue to monitor these themes in order to determine their potential impact on portfolio return. We will make adjustments as needed to compensate for their impact in an attempt to keep the risk in your portfolio consistent and seek areas for outperformance. Please contact me if you have any questions about your account. Thank you for your continued trust and partnership with me.

Sincerely,

Jason Vitucci, CFP®
Financial Advisor

The views expressed herein are not meant as investment advice and are subject to change. Information contained herein is derived from sources we believe to be reliable, however, we do not represent that this information is complete or accurate and it should not be relied upon as such. All opinions expressed herein are subject to change without notice. This information is prepared for general information only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. You should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. You should note that security values may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not a guide to future performance. CLS Investments LLC, significantly contributed to this market commentary.

The Dow Jones Industrial Average (DJIA) is a price weighted index of 30 of the largest, most widely held stocks traded on the New York Stock Exchange. The S&P 500 Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. You cannot invest directly in an index. Investing in emerging markets involves greater risk and potential reward than investing in more established markets. Risks for emerging markets include, for instance, risks relating to the relatively smaller size and lesser liquidity of these markets, high inflation rates and adverse political developments. Foreign securities may be subject to unstable international political and economic conditions, currency fluctuations, foreign controls on investment and currency exchange, withholding taxes, a lack of adequate company information, less liquid and more volatile markets, and a lack of governmental regulation which subject foreign securities to risk. There are risks associated with bonds. These risks include, but are not limited to, the same interest rate, inflation, and credit risks associated with the underlying bonds owned by the portfolio and your return of principal is not guaranteed. High Yield bonds may be subject to greater fluctuations in value and risk of loss of income and principal. Transactions in securities futures, commodity and index futures and options on futures carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract, meaning that transactions are heavily leveraged. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit: this may work against you as well as for you.