

Investment Perspective

First Quarter 2011

"You got to be careful if you don't know where you're going, because you might not get there" - Yogi Berra

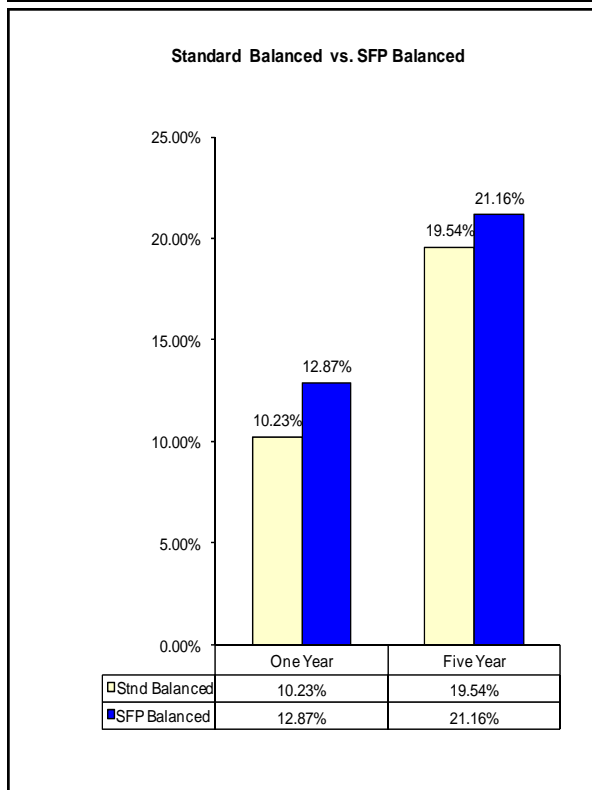
SFP Core Strategies*	Quarter 1	One Year
US S&P 500	5.98%	15.57%
US Large Value	9.29%	19.59%
US Micro Cap	8.12%	29.61%
US Small Value	8.80%	27.26%
US Equity Real Estate	6.59%	24.49%
International Large Value	4.70%	13.48%
International Small Cap	4.14%	22.51%
International Small Value	5.58%	18.71%
International Real Estate	4.78%	23.74%
Emerging Markets	2.02%	19.91%
Emerg Mkts Small Cap	-1.91%	21.01%
Emerging Mkts Value	0.72%	18.89%
Ultra Short Fixed Income	0.18%	0.95%
Shrt/Inter Global Fixed Inc	0.28%	3.69%
Inflation Protected Sec	2.07%	8.48%
Model Portfolios		
SFP Balanced Portfolio	3.70%	12.87%
Non SFP Std Balanced	3.16%	10.23%

The outstanding performance of the stock market over the last couple of years has made many investors question when the inevitable pull-back would come. Had your crystal ball foretold the unrest spreading through the Middle East, the resulting oil price increases and a devastating earthquake, tsunami and nuclear crises in the world's third largest economy, you would have probably would have avoided stock investments for the quarter because you'd thought that time had come. But if you'd done this, you would have missed out on another great quarter for investors. This just shows how difficult timing can be, *even with knowledge of the future.*

Virtually all Skaggs Financial Planning, LLC (SFP) strategies were up for the quarter. Stock gains in the United States were particularly strong, with returns for large companies approaching 6 percent. Small and value stocks fared even better, with gains in the 8.5 percent range.

The developed market international stocks also did very well, with our strategies' returning about 4 to 5.5 percent. These are our strategies that have exposure to Japan - and it is a significant portion - with about 20 percent of their assets in Japanese stock. While this did cause a drag on the portfolio, the losses in the value of Japanese stocks were fairly modest. In fact, the DFA Japanese Small Company Portfolio was up .25 percent for the quarter. Aside from Japan, the one weak area was the Emerging Markets, which were essentially flat for the quarter. (Please see the performance table.)

The fixed income side of the portfolio returned small, but positive returns. One area that continues to surprise us is the great performance on the Inflation Protected Securities. Our strategy was up over 2 percent for the quarter and nearly 8.5 percent for the year. This is a great performance for a bond fund that takes no inflation or credit risk. We have not changed the model portfolio weightings for this holding in some time, but unfortunately we have reduced exposure to this fund over the last year in actual client portfolios. Clearly, we got this one wrong, at least so far.



The one year returns for all our strategies have been outstanding across the board, with the weakest stock strategy being the International Large Value portfolio, which returned a whopping 13.48 percent. These numbers drove our reasonably conservative SFP Balanced Portfolio, with a quarter return of 3.7 percent, to gain 12.9 percent over the last year. On a relative basis, we are also pleased with this portfolio. It bested its counterpart, the Non SFP Standard Balanced portfolio by 1.6 percent over the last year. Over the five year period it returned 21.2 percent versus the Non SFP portfolio's 19.5 percent. This was once again due to heavier weightings in small and value stocks.

Investor confidence in stocks has been strengthening with the market's rise, but many of us who are currently enjoying retirement or are looking to it in the near future may still be wary with the memory of recent, steep losses still fresh. Our third quarter newsletter discussed how difficult it can be difficult to save enough for retirement without the growth that stocks can provide, but what about those folks who have already built their nest egg? For retirees, the primary concern is income, not growth. How does the inclusion or exclusion of stocks impact income levels during retirement?

To get our arms around the question, we first need to look at expected returns. While we recognize that conservative bond and bank investments are currently paying close to zero, longer term historical returns are likely to be a better guide over the long term. Returns will always vary based on the time period used, but an 8 percent return for stocks and a 4 percent return for bonds are reasonable. The joint life expectancy for a couple who are both 65 is about 25 years, so inflation can't be overlooked. Historically, that rate has been about 3 percent. Using these numbers, the following table shows the expected income level for a one million dollar portfolio invested three different ways.

\$1,000,000 Nest Egg			
	Bond s	Stock s	Income Potential
Bond Portfolio	100%	0%	\$10,000
Balanced Portfolio	50%	50%	\$30,000
Stock Portfolio	0%	100%	\$50,000

Even this decent sized nest egg can only produce about \$10,000 a year in income if stocks are excluded and the principle is not tapped. Clearly, this will not be sufficient for many retirees. On the other hand, most retirees will not feel comfortable with the large swings that a stock only portfolio would produce. For the vast majority, the sensible course lies somewhere in the middle. Some stock market risk is simply a necessary fact of life.

It is vital that investors connect the benefit of higher income potential with the risks they take when investing in stocks. Just as small tremors are likely to cause widespread fear among those that lived through the massive quake in Japan, pull-backs in the market are likely to cause an emotional response in stock investors that endured large losses just a short time ago. While the market has been surprisingly resilient, it is still important to prepare for future downturns so that emotions do not lead to bad decisions.

Wishing you a warm and happy spring,

Brian J. Skaggs, CFP

The information in this newsletter should not be construed as investment advice. Investment advice is only given in the context of individualized interactions that ideally result in the development of a continually evolving financial plan. *Total returns as measured by the performance of associated DFA funds - advisor fees not included in strategy performance. Advisor fees are subtracted from model portfolio performance at 8.3 basis points per month. This information is believed to be reliable, but we do not guarantee the accuracy of the information. **Past performance is not an indication or guarantee of future performance.**