

Gentry Investor Newsletter

👑 Will the economy & stock market stay on track? 👑

Private Wealth Management

Asset Management Asset Protection Private Equity

In this Issue

- The economic expansion is growing stronger.
- Corporate profits are growing, employment should improve, and policy transparency is increasing.
- Look for a further improving equity market in 2011.
- Emphasize equities and tangible assets in portfolios, focusing on large cap U.S. multinational dividend growers with free cash flow.

This report summarizes Gentry's recap on 2010 and 2011 investment outlook. To receive a more in-depth report or to discuss this information in light of your particular investment objective, please contact your Gentry wealth advisor.

A look back at 2010

A year that tested our investment knowledge, our resolve, and our allocations.

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Fund Fact:

On an American one-dollar bill, there is an owl in the upper left-hand corner of the "1" encased in the "shield" and a spider hidden in the front upper right-hand corner

A look back at 2010

“Muddle through” was the phrase we used to describe 2010.

The year started with the S&P 500 down 3.6% in January, but recovered nicely in February and March to finish up 5.38% for the quarter. Some investors were feeling CAUTIOUS optimism. At the time, panic seemed far away.

The second quarter started reasonably, up 1.58% for April, making investors seem as if in 2010 they could be more confident than wary. Then May was down 7.98%; and June was down 5.28%. The market was down 11.27% for the quarter. Optimism was eliminated from investors’ vocabulary and CAUTION became the sentiment of the day.

The last few months of 2010 started out with a bang, September up 8.76%, December up 6.53% and the S&P 500 finishing the year up 15.06%.

We also had a lot of focus on the battle between inflation and deflation. While neither side won in 2010, the year ended with more of a weighting in the direction that inflation would be one of the topics in 2011. Inflation in Emerging markets has already started to heat up, so it is only time when the U.S. starts to feel and see inflation.

Fixed Income: 2010 did not finish kindly for this asset class.

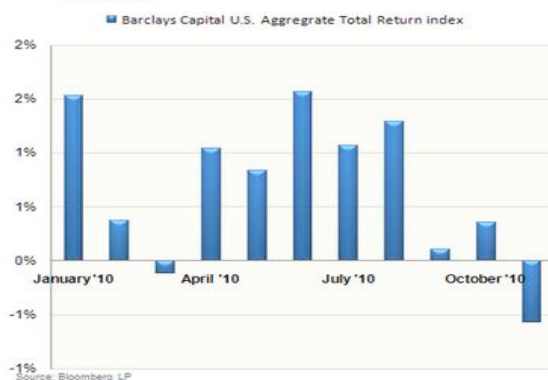
Fixed income finished the year on shaky ground. In bond markets, the theme for almost all of 2010 was one of yields trending lower as investors continued to move into the relative safety of fixed income investments.

That theme turned around abruptly in the fourth quarter of the year as investors began to seek out higher-risk assets, prompting bond yields to rise sharply as the year drew to a close.

Source: Return data obtained from Morningstar and Bloomberg

Bonds lose in November

For the month of November, U.S. fixed-income securities fell more than 50 basis points. Bonds were impacted by higher interest rates.



For the year as a whole, however, yields were down, with the 10-year Treasury yield dropping from 3.85% to 3.30%. In this environment, the Barclays Capital US Aggregate Bond Index gained a relatively modest (when compared to stocks) 6.5% for the year. In an environment of near zero interest

rates, cash investments, as represented by the 3-month Treasury bill, returned 0.1% for 2010.

Municipal-bond funds lost money across the board, as the average muni-national short and intermediate-bond funds dropped 1% and the typical muni-national long and high-yield bond funds fell 3%. Long government bond funds faced the most challenging market in December, losing an average of 4% as 30-year Treasury yields rose 0.10 percentage points to end the month at 4.34%.

Most bond funds should make their way to some stable ground in the first quarter in 2011.

Where will 2011 take us

View of the global economies

U.S. Economy

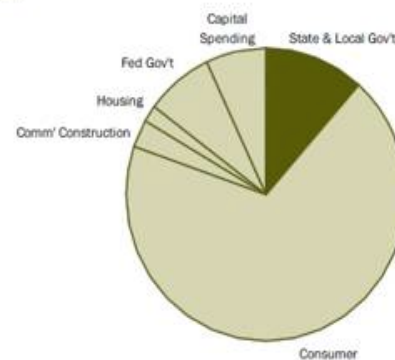
We expect investors' confidence to increase slightly and move farther away from recession tendencies and toward a stronger expansion in 2011. Corporate profits increase, employment improves, consumer spending will increase (as the U.S. consumer goes, so goes the world) and hopefully government policy becomes a little more transparent. The Federal Reserve is looking for GDP growth to be between 2.5% to 3.3% for 2011.

There has been a lot of focus on the solvency of state and local governments. State and local spending is the second biggest component of the economy (see chart). This chart gives us a visual image of just how large it is. Note that budget deficits at the state and local levels total more than 1% of GDP. Revenues, though, are still off 10% (on average) from where they were at the peak. The "fiscal stimulus" from the US government has run out and state and local communities are going to have to balance their budgets the old fashioned way – through spending cuts and increased taxes. There has been some talk in Congress about a bill that would allow states to file for bankruptcy; while there is always a possibility of this happening we feel that it is highly unlikely.

Job growth in the U.S. should move in a positive direction in 2011, but the unemployment rate remains stubbornly high. Eric Rosengren of the Federal Reserve stated that he feels the full employment will not return for at least four years. Private jobs are an area that we need to see have some sustainable growth over the next few quarters.

CHART 2: STATE AND LOCAL GOVERNMENTS ARE THE SECOND LARGEST CONTRIBUTOR TO GDP

United States: Contribution to GDP (percentage)



Source: Bureau of Economic Analysis, Gluskin Sheff

The federal government is on an unsustainable path; there may well be U.S. public debt tremors this year, both during federal debate over raising the debt ceiling and with at least a limited number of crises in local and city governments.

The bigger problem, though, lies beyond 2011, as the unsustainability of the federal government's fiscal trajectory becomes increasingly clear. In the years to come the fiscal sustainability could still be on shaky ground and hopefully it does not ultimately require another crisis to restore fiscal sustainability at the federal level.

International Economy

The international economy since 2009 may be referred to as a two-speed recovery, with China, India, Brazil, and other emerging economies at the high speed and Europe at the slow speed. That pattern is likely to continue, but with an important difference. China, India, and Brazil are likely to slow, adversely affecting the U.S. and Europe. Thus, the two-speed recovery will continue, but with the entire world growing at a much more modest pace.

Where will 2011 take us

View of the global economies

Commodities

The area that brings concern short term is the commodities market. There is still so much uncertainty in the economy and so many headwinds, that businesses simply will not be able to pass through the price increases to consumers. With the pressure of higher prices on finished goods, any increase will bring more competition and could force lower prices and in turn result in lower demand on commodities. The S&P GSCI Agriculture index rose 27% over Q4 and 44% over 2010 as a whole (see chart to left). After all, remember how high commodities prices got for a brief period back in 2008 with oil over \$146/barrel and gasoline over \$4/gallon? Same result there, too; the prices were simply unsustainable, so they did not sustain, and instead corrected back to more affordable costs.

While we feel that demand for commodities will rise in the medium term and long term this sector could start to see increased volatility and some down side pressure.

Oil Price



Commodity indexes and prices



2-YEAR HIGHS
January 1, 2009–December 31, 2010

Market	Q4 High Price
Copper	12/31/2010
Silver	12/31/2010
Gold	12/31/2010
Australian Dollar	12/31/2010
Live Cattle	12/31/2010
Soybeans	12/31/2010
Gasoline	12/31/2010
Corn	12/31/2010
Soybean Oil	12/31/2010
KOSPI 200 (Korean Stock Exchange)	12/30/2010
Crude Palm Oil	12/30/2010
S&P 500 Futures	12/29/2010
Dow Jones Futures	12/29/2010
E-Mini S&P 500	12/29/2010
Sugar	12/28/2010
Coffee	12/28/2010
Orange Juice	12/27/2010
Crude Oil	12/23/2010
Nasdaq Futures	12/22/2010
E-Mini Nasdaq 100	12/22/2010
Eurex DAX (Deutscher Aktien Index, aka German Stock Index)	12/22/2010
Cotton	12/21/2010

(2-year highs continued)

Palladium	12/3/2010
Platinum	11/9/2010
Hang Seng	11/8/2010
New Zealand Dollar	11/5/2010
5-Year US Treasury	11/4/2010
10-Year US Treasury	11/4/2010
Ethanol	11/4/2010
E-Mini MSCI EAFE	11/4/2010
2-Year US Treasury Note	11/3/2010
3-Year US Treasury	11/1/2010

20-YEAR HIGHS
January 1, 1991–December 31, 2010

Market	Q4 High Price
Copper	12/31/2010
Silver	12/31/2010
Gold	12/31/2010
Australian Dollar	12/31/2010
Sugar	12/28/2010
Cotton	12/21/2010
5-Year US Treasury	11/4/2010
2-Year US Treasury Note	11/3/2010

2011 Investment Strategies

Research & Recommendations

Global Equities:

Companies that pay substantial, predictable, and meaningful dividends, we feel, are coming back in style for two distinct reasons. First, in a post-Enron/Arthur Andersen world and after gigantic write-downs have made reported earnings for many companies questionable, a company paying meaningful dividends is, in essence, assuring investors that it is generating the real earnings and real cash flow needed to finance those dividend checks.

Furthermore, a significant dividend payer will almost certainly continue to be run in a prudent and stable manner. Dividend cuts forced by the down phases of volatile earnings patterns are not loved by investors, as was shown when many financial institutions slashed or eliminated their dividend in 2008. Dividends may provide the lion's share of earnings for many companies in future years.

We are overweighed US equities to the MSCI World index. Before 2010, there was a multi-year pattern in which the MSCI World Index outperformed US stocks. In a surprise to many, that streak ended last year with US stocks beating the MSCI World Index by nearly 400 basis points. We think 2011 will mark the second year of US outperformance. Compared with the rest of the world, the United States is benefiting from more fiscal and monetary stimulus and has a more innovative economy and better earnings growth prospects.

Equity market volatility will increase in the second half of 2011 and could see a 10% to 20% correction in stock price. At this inflection point an investor must have conviction in the investment philosophy so the investor does not flee the market at exactly the wrong time.

Fixed Income:

There is concern that interest rates will rise dramatically during the upcoming three-year period and inflation will become a thorn in the side of fixed income.

To overcome this, we are underweighting fixed income in our portfolios and changing the underlying investments style from a static fixed income style, to more of a flexible fixed income allocation. The goal of this change is to try to avoid negative returns over designated future time periods, while providing returns that on average are expected to exceed the rise in future inflation. Some investment options could be short duration funds, unconstrained absolute return funds, floating rate funds and bank loan funds.

Strategy examples: Unconstrained absolute return strategy allows the manager to have more latitude in the duration management of the portfolio (-3 to +8years). This is important in a rising interest rate environment because the longer the duration is in a bond fund the more sensitive the bond fund will be to interest rate movements.

Example on Duration: A U.S. Treasury 10-year note has a duration of seven years, which means its price will likely fall by 7% should interest rates rise one percentage point.

Alternatives:

Alternatives complement your long equity and fixed income portfolios. Investments in commodities, hard assets, currencies, real estate, futures as well as long-short positions should reduce your volatility yet provide reasonable returns for the future.

2011 Investment Strategies

Research & Recommendations

Alternatives Continued:

- **Multi family housing:** Rental apartments will benefit from the separation that Americans are beginning to make between their abodes and their investments.
- **Medical office buildings:** We favor this space due to demand for new laws set in place and population growth.
- **Low Volatility:** Designed as an alternative to bond portfolios, this strategy actively manages the allocations of the five ETFs to produce a return pattern with a standard deviation near 4%.
- **Moderate Volatility** Designed as an alternative to balanced portfolios; this strategy is an actively managed portfolio of the five ETFs with a goal of producing a return pattern with a standard deviation near 8%.
- **Managed Futures:** This asset class has the ability to invest across a wide range of global markets (stocks, bonds, commodities and currencies). They have the flexibility to take long short positions all of the above asset classes.

Specialty Equity:

We are constantly looking for investment classes that have not kept up with the current general rise in markets or have declined in a manner that defies logic or is missed price compared to its peers.

Remember that gains this year will be harder to come by than in 2009 and 2010. We will see ongoing volatility and heightened dispersion between the areas that will be the winners and the areas that will be the losers. In this sort of environment we feel that selectivity will be critical.

A HEDGE AGAINST HIGHER RATES AND INFLATION?

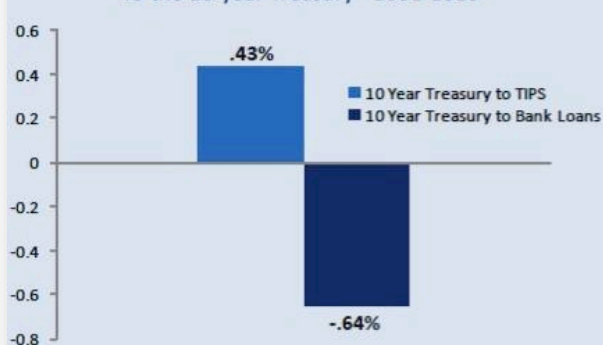
Over the past ten years ending 2010, TIPS have had limited correlation to inflation and a positive correlation to interest rates. Bank loans, on the other hand, have had a meaningful correlation to inflation while being negatively correlated with interest rates.

CHART 1: CORRELATION TO INFLATION
For various asset class indices - 2001-2010



Source: Barclays, Credit Suisse, Dow Jones, Standard & Poor's against CPI-U index.

CHART 2: CORRELATION OF RETURNS
To the 10-year Treasury - 2001-2010



Source: Barclays, Credit Suisse

News at the Gentry water cooler

At the office we had a busy year and experienced tremendous growth in 2010. We had two veteran financial advisors, Adam Sellens and Scott Reed, join our firm. We also hired Ryan Lovett for our financial planning research department.

Adam is originally from Alaska and has been in the valley for over 12 yrs. Adam started his career at Fidelity and moved up the ranks over his 10 years at Fidelity. He then opened his own wealth management firm in Scottsdale and built a very successful firm over the last 3 years before joining the Gentry team. We are thrilled to have Adam as part of the team; he is a seasoned advisor that has a deep understanding of the financial markets and a passion for excellence. When Adam is not taking care of his clients he can be found hunting in Alaska or spending time with his wife Rachel and children.

Scott Reed joined Gentry from the Private Client Group at Fidelity, where he was a Vice President and responsible for overseeing 500 high net worth families with over \$850 million in assets. Scott brings a high-energy work ethic that pushes the rest of the team to always strive for the best.

Scott has a very strong background in the financial planning arena and is always looking for new ways to bring the best planning to his clients and Gentry. Scott enjoys skiing in Utah and spending time with his wife Sarah and children.

Ryan, our newest addition to the Gentry family joined the firm in December of 2010. Ryan interned with us while he finished his degree in Economics from Arizona State University. Ryan will be working with the financial planning research team at Gentry.


We are very excited to welcome Adam, Scott and Ryan to our team and look forward to further growth in our Gentry family office in 2011.

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Sincerely,

The Gentry Team

Coming Attractions



Gentry has launched its new interactive website, we would love to hear your comments and suggestions on the new site. We think very highly of all our clients and value your opinion. Your feedback will help us continue to improve our interactive technologies.

We are also very excited to announce that we are in the final stages of launching our new performance reporting that will aggregate all of our investments in one seamless view. All of our clients will have access to their performance reporting through our client login on the company website. Estimated launch is the end of the first quarter of 2011.

Disclosure:

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