TEAM
FINANCIAL
STRATEGIES

Investment Committee

Mid Year Analysis
07/21/2012

2nd Quarter Review

The widely followed S&P 500 Index began the 2nd quarter at 1408.47 and finished at 1362.16 for a decline of -3.29%. While the index remains in positive territory for the year 2012, the 2nd quarter brought back the Eurozone cirsis and also signs of struggle for economic growth in the U.S.

For the 2nd quarter, the TFS Low Correlation Core portfolio was positive 1.06% consistent with its objective of steady positive returns. The TFS Balance Growth model had a positive return of 1.31% over the same time period.

The best performing assets in our models were:

- iShares Barclays 20+ Year Treasury Bond = 12.37% (10% of portfolio)
- Annaly Capital Management = 9.56% (7.5% of portfolio)
- iShares Barclays TIPS Bond = 3.07% (10% of portfolio)
- Mid-America Apartment Communities = 2.83% (5% of portfolio)
- Powershares US Dollar Index Bullish = 2.56% (5% of portfolio)

The worst performing assets in our models were:

- Cheniere Energy = -19.5% (2% of portfolio)
- Teekay Corporation = -18.89% (2% of portfolio)
- Royce Special Equity = - 4.44% (5% of portfolio)
- SPDR Gold Shares = - 4.27% (5% of portfolio)
- Templeton Global Bond = - 1.17% (5% of portfolio)

On the whole, deflation protection assets performed well while inflationary assets (i.e. energy and gold) performed poorly or flat. Cheniere and Teekay are smaller positions we have added to the portfolio over the past quarter to try and take advantage of the potential market in the liquid natural gas export market. While it will likely take a while to play out we think this is one area of the economy where there is long term growth potential.

3rd Quarter Analysis

Based on long-term rolling average P/E ratios and historical research we believe that broad US stock markets are in a secular bear market. We believe we will remain in a long term secular bear market cycle until 10 year rolling P/E ratios are less than 10 on the S&P 500. Due to the high valuations that were seen in the previous long term secular bull market (1981-1999), we believe it is possible that this market will reach lower valuations than past long term bear market cycles. Therefore, our long term strategies for our model portfolios seek consistent returns through low correlation portfolios.

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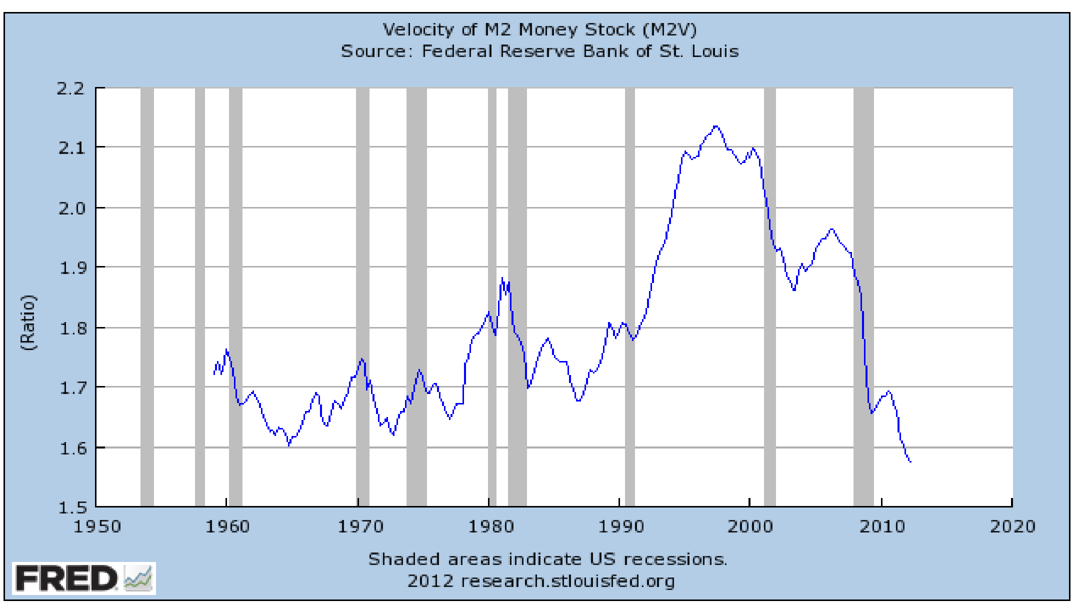
Economic Analysis – Negative

- ***Employment – Negative*** – Employment indicators are coming in mixed over the past quarter. Full time employment increased for the month of June but decreased over the full quarter. Part time employment was exactly opposite. There is no clear trend for employment at this time over shorter term measures. We are still rating employment as negative because we need a strong uptrend for markets to recognize positive employment growth.
- ***Housing – Neutral*** – Housing appears to be flattening some at this point based on the Case-Shiller Housing index. We may be seeing a slight tick positive but the housing is definitely down and at this point there is also not a trend that would be strong enough to motivate stock markets. However, because of lower values and the appearance of prices flattening instead of falling we have moved to neutral here.
- ***Money Velocity – Negative*** – One key indicator that we believe to be forecasting for the economy is the "Velocity of Money". On the chart below from the St. Louis Fed website you can see the dive we have taken since 1999 and the trend continues. After a quick reversal at the end of 2009, the trend has continued and we are now at the lowest levels since they began tracking this data. This is important because "velocity of money" can be thought of as turnover of a dollar in the monetary system. When velocity is higher it means a dollar is being used multiple times in the system to produce growth in GDP. When it is not moving it means money is sitting in savings accounts and is not contributing towards growth. We believe the velocity will show an upward trend once the economy is better structured for growth.



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Market *Analysis* – *Neutral*

- ***Fundamental Analysis*** – *Positive*
  - Revenue growth of S&P 500 companies – Positive – We estimated revenue growth of S&P 500 companies of 7% from June of 2011 through June of 2012.
  - Earnings growth of S&P 500 companies – Positive – We estimated revenue growth of S&P 500 companies of 10% from June 2011 through June of 2012.
- ***Technical Analysis*** – *Positive*
  - The S&P 500 is currently trading above the 50 day moving average of 1346.83
  - The S&P 500 is currently trading above the 200 day moving average of 1322.92
  - The 50 day moving average is trading above the 200 day moving average
- ***External Analysis*** – *Negative*
  - Europe – We believe Europe is causing extreme uncertainty in global stock markets. Are the economic woes and debt problems in Europe spreading to the rest of the globe? This is a big issue that does have large ramifications for our companies in the United States.
  - Fiscal Cliff – The quickly approaching tax changes are going to begin to matter to broad stock markets before the end of the 3rd quarter. The potential for substantial increases in taxes on dividends and capital gains along with increases in ordinary income tax brackets is something we expect to have a negative impact on stocks this quarter.
- ***Interest Rate Analysis –*** *Negative*
  - 30 Year Rates – Over the past 5 years the yield on the 30 year bond has had a direct relationship with the stock market. Over the past six months this relationship has decoupled. 30 year rates are now under 2.50% and the stock market has remained positive for the year. Our expectation is that 30 year yields are predicting a decline in stock prices and they will reunite at some point in the future.

Price Analysis – Negative

- *In long term secular bear market cycles markets tend to trade in a large range for a very long period of time. For instance, from 1966-1981 the Dow Jones Industrial Average started at 969 in 1966 and ended at 875 in 1981. That is a 15 year period where you pretty much ended at the same place you began. However, there were 4 positive swings of more than 20% and 4 negative swings of more than 20% in that cycle. Therefore, we are breaking down this secular bear market by price quartile. If we are trading in the top quartiles of the bear market cycle that will be considered a negative for adding stock market exposure. If we are in the bottom two quartiles that will be considered a positive for adding stock market exposure. This analysis is based on first deciding that we are in a long term secular bear market.*
- *Current Price on the Dow Jones Industrial Average = 12721.46*
- *Quartiles*
  - *Bottom Quartile = 6626 – 8486*
  - *2nd Quartile = 8486 – 10346*
  - *3rd Quartile = 10346 – 12206*
  - *Top Quartile = 12206 – 14066*

Overall – Our analysis gives us a neutral position for the next quarter on the market. However, pricing risks and economic risks weight our analysis to a "Negative" outlook. This means we will remain more conservative in models and portfolios for clients at this time.

Actions

TFS Low Correlation Models

- Move half of long term treasury bonds to long term treasury inflation protected bonds
- Add to gold through SPDR Gold Trust (GLD)
- Rebalance