Paradigm *SHIFT* ***June 2011***

"Paradigm shift" is the term used to describe a change in the basic assumptions within the ruling theory of science. Since the 1960's the term has also been used in numerous non-scientific contexts to describe a profound change in a fundamental model or perception of events.

Greatmark believes our economy is in the midst of a paradigm shift that could have very significant long-term ramifications. We believe this paradigm shift occurred as a result of two huge events – the global financial crisis and the demographics of the "baby-boom" generation cresting the hill towards retirement. In this special piece, we are going to attempt to explain to you how we have interpreted this shift and how to cope with it.

Yesterday, the Chairman of the Federal Reserve, Ben Bernanke held his second press conference of the year and said the Fed was at a loss to explain why the economic recovery was not stronger. Statistics cannot explain a paradigm shift - it is a *fundamental change* in the basic assumption. The basic assumption of economists has been that if you cut interest rates enough and keep rates low for a sustained period of time, that economic growth will ignite. Once growth is up and running and starting to overheat, you raise interest rates to cool things off and to get the temperature of the economy "just right". The Fed has cut short-term rates effectively to 0% to pull us back from the brink of a depression. They "bailed out" our banks and "saved" GM and Chrysler. The economy started to grow and we snapped back some but last May things started to turn down again. We were faced with the possibilities of a double dip recession. So last August, the Fed kicked off a Quantitative Easing program – printing money and using that money to buy US Treasuries. This was an attempt to "inflate" the economy. If the stock market went up – *so the thinking went* – and other asset values grew, the consumer would be emboldened to spend and *surely* that would kick off robust growth. Even after all of this added stimulus, we are seeing now that the growth still isn't truly kicking into gear.

Now the world is focused on Europe and their government debt crisis and the looming government debt crisis in the U.S. And therein lies the paradigm shift…we've got too much debt and the world is trying to deleverage (*remove debt*). To deleverage, you need to shrink. When a household deleverages, it sells assets, pays off debt and learns to live with less. When a society deleverages it likely means shrinking spending and anemic growth. In simple terms, there are two ways to control our nation's deficit and debt - 1) raise taxes which means you take more money out of consumer's pockets leaving them with less to spend and, therefore, slower growth or 2) you cut Federal spending on projects and programs. Less spending = slower growth unless it is offset by other areas.

The 2008 financial panic was created by 4-5 years of very low interest rates and a real estate market left unchecked by the governing bodies. We had a bubble in technology stocks in the late 90's that burst with the NASDAQ stock market crash (*That market fell from 5000 to 1100 in two years*). The U.S. went into a deep recession that was exacerbated by 9/11 and the Fed dropped rates to almost 0% to try to stimulate growth. Rates were left too low for too long and a real estate bubble formed. You know how that turned out and the world took on an enormous amount of debt. Nations piled up debt, consumers piled up debt, investors piled up debt all on the highly leveraged bet that prices would just go up and up forever. And, of course, prices never go up in any asset forever and…real estate crashed. For 20+ years the US built roughly 1 million new homes a year and during the bubble that number jumped to 1.7 million a year. Today we are building new houses at a 350,000 a year pace. The building boom was especially pronounced in "hot" markets like Las Vegas, Florida, Phoenix and Atlanta in a *"build it and they will come"* strategy. In many of these most overbuilt markets, it is going to take years (*a decade?*) for the excess supply to be absorbed.

Luxury home and 2nd home market

Even more troubling is the trend in the luxury home market (*$1 million and up*) and the 2nd home market. Here is where the demographic component kicks in. The 60-80 year old crowd (*for the most part*) in America is who owns the million dollar homes and most of the 2nd homes. Even without a financial crisis, this group is nearing the point demographically where they would be looking to exit these homes to downsize and simplify. But with the financial crisis, the situation was greatly magnified.

There are 15 homes in Columbus, Georgia over $1 million for sale. In Atlanta or L.A. that is a "*who cares*" number – in Columbus, it is a big number. It is hard to find many people that can afford a $1 million home in a city like Columbus. On Sea Island, there are now 75 homes for sale over $1.5 million and of the 75, there are 50 that are more than $2.5 million. *50 homes over $2.5 million – vacation homes!!* On Lake Martin in Alabama – 25 homes over $1 million are on the market and there are 70+ on Lake Lanier over $1 million for sale. In the North Carolina Mountains (*5 markets - Highlands, Cashiers, Toxaway, Glenville and Sapphire*) there are 291 homes for sale over $1 million. In Florida from Destin over to Rosemary Beach, there are 475 homes for sale over $1 million and out of that group, **127 are over $2.5 million!**

How many people do you know that can afford a $1 million 2nd home at the beach or the mountains? How about those that can afford $2.5 million? And of those we know that ***could*** afford these, most already have one and of those who don't, most wouldn't dream of buying one. And these are just a handful of markets – what about *"average"* lake homes on Lake Harding, West Point Lake, etc.? There are 100's of thousands of these. What about Hilton Head, all of Florida, the Tennessee Mountains, Myrtle Beach, Reynolds Plantation, *"average"* mountain homes in towns like Hiawassee and Helen, etc.? While the $1 million+ luxury market is a problem, so too is the $400,000+ *"average"* 2nd home market.

Don't get us wrong – there is a market for all of these properties. A $300,000 cabin on Lake Harding can and will be sold…eventually. There will be buyers for these but we would argue that given this paradigm shift, there is a new mindset in America about the wisdom of using a lot of leverage to own luxuries. If you're a doctor or business owner and you have the cash flow to buy a 2nd home and can use either all cash or mostly cash…that market will remain viable. But there is an enormous supply ***coupled with*** the coincidence of having a rapidly shrinking pool of likely buyers. To us, this means residential real estate is going to be in the doldrums for quite a long time. In some cases, perhaps for a generation.

There is a large supply of luxury and 2nd homes in America that would be naturally coming onto the market over the next 10 years. In a healthy and thriving economy, the 35-55 year old group would be coming into their peak earning years and they'd be the logical buyers of the properties coming for sale. But something happened – we came perilously close to a financial collapse a few years ago. America was drunk on debt – too much mortgage debt, too much education debt, too many credit cards, too many expensive cars, plasma TV's, etc. All of a sudden, America slammed into a wall.

Deleveraging

The wall was called "deleveraging". The 60-80 year old crowd is still there, still nearing the point where they'd start thinking about selling. But they suffered from the 2008 crisis. Their stock portfolios and IRA's were hard hit. Anyone remotely *thinking* of selling put their properties on the market to try to get out while they could. About the same time, the 35-55 year old crowd realized they were in over their heads. They had too big of a house, too many car loans, too many credit cards and their portfolios were plunging and their friends were losing their jobs. Country Club memberships fell off significantly as did private school enrollments across the country. The 35-55 year olds, for the most part, pulled back in the fences and are not looking to get bigger homes or 2nd homes.

A bell rung. Something huge changed. We had a brush with financial death and went into survivor mode. We battened down the hatches and hunkered down. We cut back on vacations, we tempered our spending and we started paying attention to the thermostat at home.

As strange as this sounds – all of this is good. America got too strung out on debt, too dependent. We needed to pull back. We needed to pay down debt. We needed to learn to live within our means. That is happening and long-term, this is going to be a huge positive. But we believe it means we are going to be battling a slow growth, deflationary environment for quite some time. PIMCO has a phrase for this they coined about a year ago called *"The new normal"*. We understand what they are talking about. We have a lot of debt to pay back and a lot of real estate to work off. It is going to take time. There are encouraging signs. Our national savings rate has gone from being negative to being a positive 5-6%. Families are saving money every month. Corporations are stronger than at almost any time in history and are now sitting on more than **$1 trillion** in cash. Individuals have poured money into bond funds and bank accounts. Bank deposits exceed bank loans by **$1.5 trillion**. In 2008, deposits were $200 billion ***less*** than loans. Part of this radical change in balances is due to there being almost no loan demand and a lot of debt being repaid – *which has capped the loan number* – and the rest is from a flood of cash into the banks. **At almost 0% being paid, what does that tell you?**

It tells us that all of a sudden America has turned risk averse. We've moved from a nation addicted to spending and wracking up credit card debt to a nation that is more cautious and more fiscally conservative. That's good. And why is there almost no loan demand? What does that tell us? We think it also plays into this demographic paradigm shift. Business owners all witnessed 2008. Some had a brush with death. Some saw competitors go bankrupt. Memories are very fresh. There is a new element of a degree of distrust of government and the economic policies. Rather than rushing out to hire new workers, business owners are trying to get more from their existing employees. Rather than adding on to the plant, they are holding onto cash. Rather than buying 4-5 new trucks, they are making due with the trucks they have. Some of this will change. The laws of the "jungle" and animal spirits will return. They always do in a capitalistic society. We'll see opportunities and grab them before our competitors do and we will buy new equipment and add onto the plant. **But**…*because of this shift* and the abundance of caution, it is going to take a lot longer than the Fed's economists first modeled. Remember Chairman Bernanke said he was *"at a loss to explain why growth hadn't come back to the degree they thought it would…"*

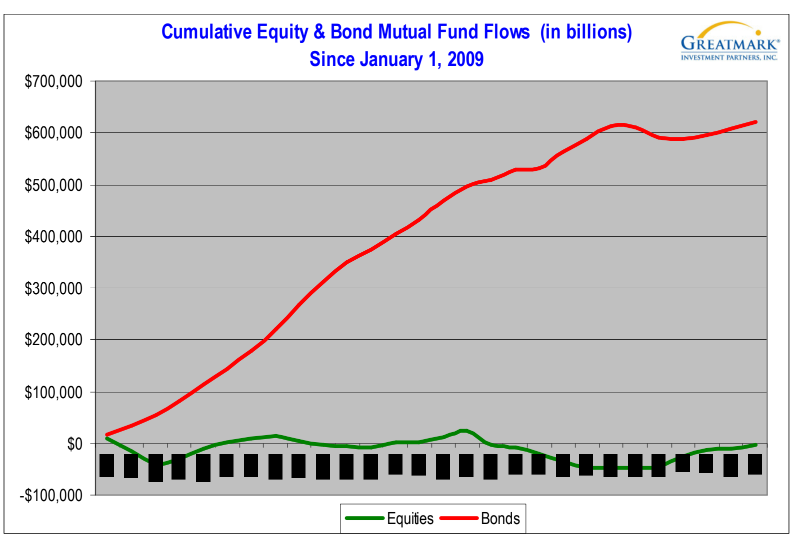
*In **part 2** of this special 3-part piece, we are going to attempt to explain to you how we have interpreted this shift and how to cope with it…*

There is even more to this paradigm shift

After last week's piece, Barron's had an article on Saturday that grabbed our attention because it affirmed much of what we are feeling…

"Corporations are sitting on a $1 trillion cash hoard. They don't want to borrow money. They want to lend it. Instead of borrowing to the brim and gearing up their capital structure to goose up shareholder value, as they did in the decade leading up to the Great Crash of 2008, they have turned survivalist. Investor's preferences have also changed. During the great stock market boom of 1979-1999, reinvested dividends made up only 20% of the total return rather than the pre-boom average of 63%. Investors had such confidence that earnings would rise that they ignored current income (*we would argue that this was driven by the demographics – the bulk of the money in the market in the 1980's-90's didn't need income, the bubble of baby boomers were 40-55 years old. Today, they've come of age and need income*). Today, by contrast, they aren't willing to give up income for the hope of growth. Investors want income now."

The shift in our society – *largely driven by the demographics of the baby boomers* - is moving away from growth and towards income. Investors need income. *Who do you know that doesn't need more income?* We've seen this in the huge flow of money into bonds…



This move into bonds began in 2008 during the teeth of the financial crisis. Despite the bottoming of stocks in March of 2009 and the 60+% rally over the next year…more than $800 billion <u>still</u> poured into bond funds. We've been at a loss for words (*it's not just Ben Bernanke!*) as to why money flows into bonds and ignores, for the most part, the high quality dividend paying stocks. We think the answer lies, at least in part, in the paradigm shift coupled with the demographics.

Over the next ten years, we think income and *preservation* of capital is going to be more important than the growth of capital for the majority of investors. This happens to coincide perfectly with projections of a 1-2% GDP growth and the possibilities of a Japan-like so-called "lost" decade. To a degree, it becomes a self-fulfilling prophesy. The more we shift money into income producing assets and away from riskier investments, the slower the overall GDP growth will be. If you're trying to protect capital and need it to pay you steady income, you are going to naturally have a lower tolerance for risk than the investor seeking growth of capital.

The wealthiest segment of investors is the 60-80 year olds. They benefited from the 18 year bull market from 1982-2000. They built substantial wealth. As a general rule, though there are exceptions, my generation has not. My generation came into their earnings power around 1995-2000…near the top of the market. We got sucked into the dot-com era. The stock market has gone up and down but has made no great progress since we started investing. My generation needs growth of capital but we've been wounded by the financial crisis, we've got too much debt and are cutting back to a more reasonable lifestyle. We need growth but we too are more cautious than ever. Once burned, twice shy. So all across the curve from the 45 year old at peaking earnings but with kids headed to college -- to the 55-65 year olds with kids exiting college and probably with too big a house, too much debt, and not enough savings -- to the 65-80 year olds having had a *"whew"* moment of surviving the 2008 collapse and looking to sell the 2nd home….we are all more risk averse and we all need more income. We'd love growth…but we **<u>need</u>** income. We believe that is a paradigm shift.

Greatmark believes we will have extraordinarily low interest rates for a long time – much longer than the Fed's models predict. As the demand for income rises, money pours into bonds seeking yield – *after all, they're getting almost 0% at the bank* – and the more money that goes into bonds, the lower rates go. This is what has happened over the past two years. Since May of 2009, the yield on the 10-year US Treasury has fallen from 4.0% to 3.0%. Rates won't go to 2.0% but the downward pressure will persist.

There is a rising demand for yield…everyone needs more income **<u>and</u>** we have a society that is deleveraging. We are paying off debt. That means there will be less debt instruments out there to meet the rising demand for bonds. Very simple supply/demand economics tells us that bond prices will stay elevated and yields compressed in this scenario. We are not predicting that rates will stay this low forever. We can see the 10 year bond drifting back up to 4.0% - 4.5% but we do think this general downward pressure on rates is probably more "permanent" than the market is expecting.

Societal implications of this

This paradigm shift potentially has enormous societal implications. First the aging of the baby boomers into retirement means a huge shift in the burden on Social Security and Medicare. We won't address this one because it is gigantic and almost impossible to calculate. That pressure is coming but for now, we are seeing people working longer. Rather than retiring once they get their

"25 years" in, they are staying on the job. They don't have enough money to retire and/or have too much debt and so they'll keep working. As a result, students coming out of college looking for jobs are finding those jobs very hard to come by. That has big implications.

Another issue is the weak financial condition of many states and municipalities. Tax revenues are down and tough cuts have to be made in budgets. One can look no farther than Greece to see where this ends up if we don't make some radical changes. As a society, we cannot over-promise. The Greeks can retire with full benefits at age 52. No wonder they are now throwing rocks and shaking their fists at the Government for daring to change these benefits. But the numbers just don't work in Greece and they won't in America either. We are all living longer via better healthcare and innovative new drugs. The average life expectancy in America has increased from 70 years to 79 years since 1960. So we have an older population than projected 50 years ago coupled with a huge bubble of people scheduled to retire over the next decade. More people are going on the Government "payroll" and less are out producing. It won't work.

The other huge implication is on our national debt situation. We need growth. Growth is the single best remedy to our national debt problem. If the GDP was growing 3-4% a year, tax revenues would be much stronger and our debt to GDP ratios would be improving instead of getting worse. Strong growth gives the government a lot of options to deal with the debt. 1-2% growth with 8-9% unemployment handcuffs what the government can do. The solution isn't simply to *"tax the rich"* to make them pay their *"fair share"*. Nor is the solution *"no new taxes at all"*. The two sides in Washington must come together and formulate a pro-growth strategy. If they can help get the economy growing, the tax dollars will come. If they cannot stimulate growth, we'll languish for quite some time.

To reiterate, we believe this paradigm shift has been created by…

1. An accumulation of too much debt (*mortgage, student loan, credit card, municipalities, states, the US Government and foreign governments*)
2. Debt peaking about the same time as the bubble of baby boomers started to retire
3. The financial crisis of 2008 and near brush with death shaking the confidence of everyone

Greatmark cannot fix the societal implications of this shift. Since we're not politicians, we won't offer you a political solution to them. But they are very real and they pressure our economy and thus, our markets. We need to be cognizant of what is going on and adapt to the conditions dealt to us. We think (*repeat…think*) that our nation is waking up to just how potentially damaging this debt crisis is if left unchecked. We sense – *for the first time in a long while* – the nation's rising demand for the politicians to fix the problem. This rising national "anger" about out of control spending is, to us, a positive sign that real change can happen.

*In **part 3** of this special 3-part piece, we are going to attempt to explain to you how we plan on navigating this new paradigm and why we remain optimistic about the future…*

Ok…so now what?

We've been pretty candid with you about some of our concerns coming out of this paradigm shift. It would be understandable to be concerned about where we find ourselves in the current landscape but much of what underpins this shift is quite positive. There seems to be a return to more rational, conventional, conservative behavior. If you pick up a rattlesnake and it bites you, it is logical to think your future behavior would change in handling these animals (*if you survive*). Our society nearly overdosed on debt and we nearly had a financial collapse. It is natural that behaviors would change coming out of this event. Humans have learned to survive by adapting to changing situations and capitalism has proven very creative in dealing with setbacks.

America has faced enormous challenges before and has always overcome them. There have been many times in the past 100 years when people logically and rationally said, *"America's best days are behind it."* Many felt that way in the late 20's as the Great Depression came and again in 1940 with the rise of Nazi Germany and Japan. We felt that way in the late 60's and early 70's during Vietnam and the drug era. Soon thereafter, Nixon resigned and 6-7 years later, we had runaway inflation and interest rates, hostages in Iran and the Soviets had invaded Afghanistan. In any one of these times, it was easy to see that America had seen its best days and that our decline was inevitable. It was also easy (*perhaps it is human nature*) to feel there was no way out. *"Well but the politics are different today than they've ever been."* Or… *"There are too many people on the Government payroll…America has lost its work ethic."* Or… *"We don't manufacture anything anymore."* All of these are valid observations and they've probably been said by past generations in some variation. However, we shouldn't shape our investment strategy along the lines of these feelings. Greatmark continues to believe America's best days remain ahead. America has always found a way. It is fatalistic to believe we cannot possibly improve from here.

We love this quote from economist Milton Friedman, *"There is no alternative way – so far discovered – of improving the lot of ordinary people that can hold a candle to the productive activities that are unleashed by a free enterprise system."* That "drive" towards a better life is still very much in place and America is the bastion of capitalism in the world. Of the 50 most valuable companies in the world, 24 are headquartered in America. We are uniquely positioned to help "export" capitalism to a world hungry for a better life. As investors in many of these companies, we stand to benefit from this trend.

What we believe from all of this…

1. **Real estate is going to be extraordinarily challenged for quite some time**. Certainly in the $1 million plus luxury home and vacation home markets but also in the lower-priced $400,000-$750,000 home, lake home and beach condo markets. This is being caused by a combination of 1) a huge real estate bubble that drove prices way too high 2) the 2008 financial crisis that severely damaged confidence and valuations and 3) this happening just as the baby boomers came "of age" and needed to downsize and cut back.
2. **The need for more income is an offshoot of the crisis and the aging of the boomers.** We believe this shift to income producing assets is going to remain in place for the foreseeable future. Almost everyone needs more income and that will help to keep interest rates lower than many expect and for longer than most expect.
3. **If you have debt, now is the time for action.** We are in a period of extraordinarily low interest rates. Now is the time to restructure your balance sheet if you can. If you have credit card and automobile debt and a higher-than-current-market interest rate on your mortgage (*and you plan to stay in your home for some time*), this is a great time to try to consolidate your debt into a lower interest rate mortgage. Once you pay off those credit cards…never again run a balance on them.
4. **Now is the time to take a good hard look at your expenses.** We don't think this economy is going to come roaring back and we don't think anyone can assume that their income is going

to snap back to peak levels quickly. In many cases, Americans have lived beyond their means for too long which has helped fuel the problem. Now is the time to be realistic about our income, our expenses and our debt. Most boomers don't have enough money to retire. One way toward that goal is to work off debt, cut spending and ramp up savings. Rather than buying/leasing a new car every three years, learn to enjoy yours for 7-8 years. Look at all your monthly expenses and see where you can cut back on some luxuries. $100 saved is $100 that can be invested into something that can grow and pay you income for retirement or that can be used to pay down debt.

5. **If you are thinking about buying a 2nd home or dramatically "upsizing" your home…be <u>very</u> careful.** *(See #1)*. We are not saying that lake homes or beach condos are evil. They're not. It is tempting to look at a condo that was once $800,000 and is now for sale for $400,000. We can dream of buying it, renting it, getting to enjoy it a few weeks a year and having it go back up in value to $600,000-$700,000 in a few years. 15-20 years ago, that is how beach property worked. If prices fell hard, you bought because they always snapped back and then some. But the demographics today are powerfully different than they were 20 years ago and they are fighting against you. If you are thinking about buying, do your homework. Find out exactly what owning that unit will cost you in taxes, insurance, association dues and maintenance. Understand how they are renting and find out the not-so-glamorous parts of owning a rental unit. Be prepared for two things, 1) the rental income the agent tells you that you can expect, won't happen and 2) if you buy, be prepared to be an owner for a long time. Don't bank on being able to "flip" it in a few years for a profit. Don't make a snap decision and do call us, we'll sit down and look at the numbers with you.
6. **The main economic driver for the next decade will be the emerging markets.** To the Milton Friedman quote above – there are 3 billion people on this planet in China/India/Indonesia/Brazil/Africa, etc. – that want capitalism. They want the comforts that you and I enjoy. They'll buy Coca-Colas, computers with Intel processors and Microsoft operating systems inside, shampoo and Tylenol from J&J, Nike shoes, they'll wash their clothes in Whirlpool washers, they will talk over Skype, they will need capital to finance their growing businesses, Wal-Mart will be there selling them goods, Caterpillar will be there selling them tractors to build their infrastructure, they will eat at McDonalds and drink Starbucks and they'll have their health improved through the medical devices of Abbott Labs, Medtronic and Stryker. That is an enormous opportunity for US companies with a large global presence. Our portfolios stand to benefit from this trend.

Investment Strategy - how we adapt to this Paradigm Shift as an investor

Dividends

First, we believe dividends will be much more important over the next 10 years than they have been in the past 20+ years. In the 1960's, 1970's and from 2003-2009, dividends produced 58% of the total return (*income + growth*) investors received from stocks. These were tougher economies, choppier markets than the 80's and 90's roaring bull market when dividends provided just 20% of the total return. With the growing demand for income, we believe dividends will become even more important for investors that invest in stocks.

Our 10 largest holdings carry a combined dividend yield of 2.8% and have grown their dividend on average 13% a year since 2003. The 10 year US Treasury bond pays 3.1% today. Our top 10 holdings provide nearly the same income and we have great confidence that this income will grow annually over the coming decade. We'll get good income from the stocks, income that will likely consistently grow ***and*** we'll get a good chance for a growth of our capital. That is far more appealing than the 10 year Treasury to us.

Quality

In a lower growth environment while facing a massive debt overhang, we believe a focus on high quality companies is prudent. It could well be that small cap stocks continue to outperform. Certainly it is easier to grow a small, emerging company than it is to grow a company like Johnson & Johnson. There will continue to be very fast growing, newer companies focused on technology, healthcare and consumer products that will do very well over the next decade. That said, in this more risk-averse climate, we believe investors will gravitate towards high quality companies. For now, most of the money has been going into bonds but as money moves toward stocks, we think the majority of it will come to the high quality, dividend paying stocks.

Value Line rates stocks on two measures we use – financial strength and safety. The highest financial strength rating is A++ and their highest safety rating is 1. Of the 1800+ stocks they follow, only about 40 carry the combined A++ and 1 rating. Of our 15 largest holdings, 13 are rated A++ and 1. We own very strong companies which gives us a great deal of comfort.

Value

In this environment, we would advise working into any stock portfolio a measure of protection that comes from buying high quality, great businesses at a *reasonable* valuation. Usually that is very hard to come by…the "premium" businesses trade at premium valuations to the market. Today, that is not the case as quality is relatively cheap. The S&P 500 trades for approximately 12.5x next year's earnings. The market itself – *especially in this low interest rate environment* – is not expensive. But many of the very high quality, dividend paying stocks are cheaper than the market. Our 15 largest holdings trade at approximately 11.9x 2012 earnings.

Fixed Income

"When the whole world is doing one thing, it's usually best to do the other." We have said that we believe interest rates will remain unusually low for quite some time driven by the surge of investors needing income. We don't think the 10 year bond will continue to yield 3.1% forever and, in fact, we wouldn't be surprised to see it drift back up to 4.0%-4.5% over the next year or so. But even still, 4.5% is a historically low interest rate and we think rates will remain in this range for the foreseeable future. Fixed income investing, therefore, isn't a "slam dunk". Investors should be careful of pouring money into bonds and bond funds thinking they can't lose money. They can. We are finding some good places to put fixed income to work – bank preferreds that will likely be called in 2-3 years but carry a 6.5% to 7.5% yield to call. In addition, some corporate bonds are available in the 7-10 year range yielding 5.5% to 6.0%. We're also carefully using a few closed end bond funds (*with exposure in preferreds, convertible bonds, international bonds*) and exchange traded bond funds.

For many of our clients and prospective clients, a mix of high quality, dividend paying stocks along with a diverse fixed income portfolio is the right solution. Stocks with dividends paying 3% (*whose yield will grow over time*) and offer appreciation potential coupled with a fixed income portfolio with yields in the 5%-7% range is increasingly appealing to many investors.

Opportunity

Lastly, we think this environment – *because of the challenges and the associated choppiness* – is going to afford us some opportunities to be stock pickers to add value. At our core, as a foundational belief, Greatmark is a long-term, patient owner of businesses, not a flipper of stocks. We'll likely own J&J, Coke, Intel and Target for much of the next decade. We also see pockets of opportunity to buy stocks that have been temporarily beaten down where we think we can add some value by adding a few shorter-term holdings.

Conclusion

As we have outlined, we face many challenges as a result of the weak economy and this Paradigm shift. But where there are challenges, there are always opportunities. Hockey great Wayne Gretzky once said, *"I skate to where the puck is going to be…not where it has been."* We think we have outlined for you where we think the economy and market are going and how to navigate this new direction. We believe in what we own in our portfolios, their quality and their strength. The coming changes should play very well into our hands and should provide you with a satisfying investment experience over the next decade. Thank you for partnering with us. We look forward to better days ahead and working with you to craft a plan to help you meet your goals.

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