TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

April 2011

Quarterly Insights

First Quarter 2011

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EXECUTIVE SUMMARY

Stocks Are Off To A Good Start In 2011, Bonds Are Tame

In the First Quarter, the domestic S&P 500 Index rose 5.92%. We remain bullish, as more economic indicators are "normal" (GDP, Retail Sales, Corporate Profits) and "improving" (Capacity Utilization, Unemployment) than "not normal"(Housing). Bonds barely rose as slack in the economy is keeping a lid on inflation. We do not yet view inflation as a threat, but continue to hold Treasury Inflation Protected Securities (TIPS) as part of a diversified bond portfolio.

Stock Market Doubles In Record Time

In less than two years from its low point (March 6, 2009), the S&P 500 Index rose 100% (February 16, 2011). This is the fastest ever doubling of the index. And many investors missed it!

Investors tend to mismatch their investment time horizon, which is usually in excess of 20 years, with short-term market predictions. This is a mistake. Risk falls and return stabilizes as time horizon increases. A disciplined long-term proper asset allocation strategy is the best way to help you accomplish your investment objectives.

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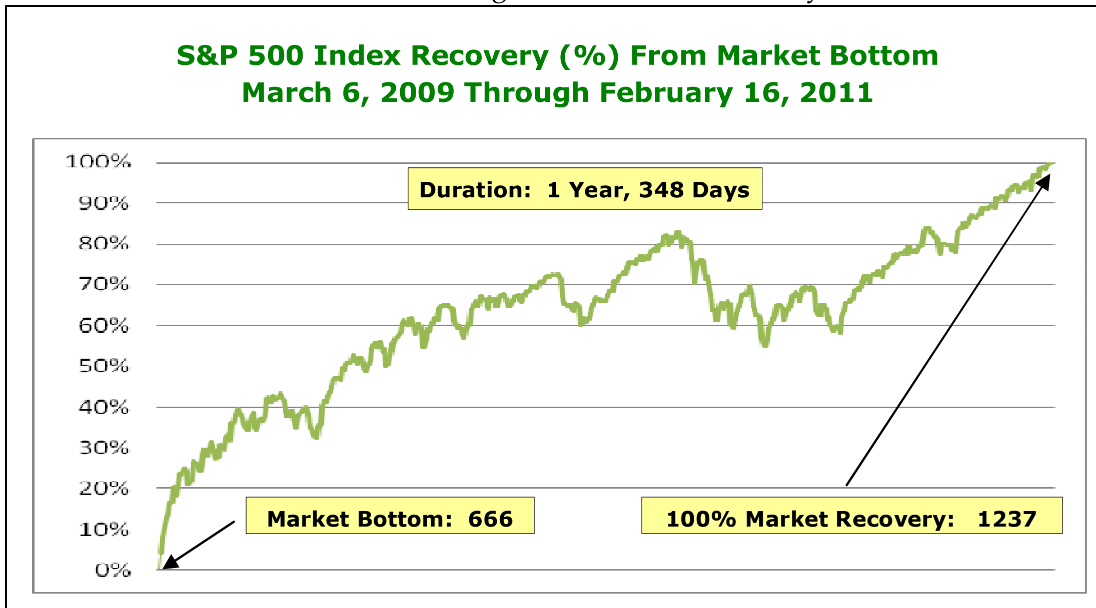
Stock Market Doubles In Record Time

Dramatic Market Recovery Shocks Many Experts

The stock market bottomed in early 2009 and, to the shock of many respected market experts, subsequently skyrocketed to a record recovery. In less than two years from its low point, the S&P 500 Index rose 100%. This is the fastest ever doubling of the index. And many investors missed it!



Stocks have marched higher and higher throughout history with periodic declines that make investors question whether they should be in the market. These occasional rapid sell-offs often scare investors to the sidelines where they linger while markets race forward. The 2009 market bottom was one such time where many capitulated and moved to cash or bonds, only to watch the market ascend like a phoenix rising from the ashes.

Individual Investors Are Missing The Returns

The market decline of 2008 caused great outflows from stocks that went towards bonds. The table below shows mutual fund cash flows, which is a good proxy for investor activity.

Mutual Fund Cash Flows To Stocks And Bonds

Time Frame	Stocks	Bonds
2008	($234 billion)	$28 billion
March 2009 to February 2011	($22 billion)	$606 billion

Source: Investment Company Institute (ICI)

Investors may have initially benefited from this herd behavior of selling stocks, but over time they have missed the greatest beginning to a bull market in history. Yet it is easy to understand why when well respected economists and market pundits were very wrong about both the market and the economy.

Nouriel Roubini, professor of economics at NYU and well regarded columnist at Forbes, wrote an article six days after the market bottom titled How Low Can the Stock Market Go?. In it he answered "lower…much lower." Dr. Paul Farrell, behavioral economist and Wall St. Journal contributor penned the article We'll Be In the Great Depression 2 by 2011. This was published in Fall 2009 and seemed to sum up the economic outlook of the day.

Climbing The Wall Of Worry

The Wall of Worry is a phrase used to describe a rising market trend in the face of uncertainties. Today's worries are unique whether they be food and commodity spikes, earthquake damage in Japan or fiscal problems with our government. Any of these seem big enough to halt the market progress yet our market history includes multiple wars, presidential assassinations, oil spikes, recessions and depressions, and natural disasters. Even so, long-term market returns have been phenomenal.

There are two reasons that the market can rally during what may appear to be difficult times. First, the stock market is a leading economic indicator as it predicts future earnings and economic growth. Often we see the market turn up 6 to 9 months before the news is good. Unemployment was under 5% during the beginning of 2008 and steadily increased to 8.6% when the stock market bottomed in March of 2009. However, during the powerful rally off of the bottom unemployment kept rising peaking at 10.1% in October of 2009. Since then it has fallen to 8.8% today, which is still higher than the bottom of the market.

Second, capitalism is a solver of problems. Individuals are incentivized to fix economic problems through hard work and smart decisions. Free markets greatly assist the repair of our economy by allowing the pricing mechanism to clear inventory gluts or to produce goods during shortages. In short, capitalism allows our economy to mend itself over time. This is exactly what has been happening to our economy as indicated by stock market returns, GDP growth, industrial production and corporate profits.

It's Different This Time

There are common behavioral traits which cause investors to make mistakes. The Recency Effect makes investors over-estimate the likelihood of an event based on a recent occurrence. The Great Recession of 2008 was just such an event. Many investors became convinced that we would be in a prolonged downturn or depression even though historically it is exceedingly rare. In fact, the last depression we had was 75 years ago.

Kahneman and Taversky, in their Nobel Prize winning paper on Prospect Theory, established that people hate losses 2 ½ times as much as they like gains. People become so focused on not losing money in the short-term that they sabotage their long-term goals by going to cash during the inevitable market swoons. Consequently, they miss out on the best returns of the new bull market.

Investors tend to mismatch their investment time horizon, which is usually in excess of 20 years, with short-term market predictions. The table below uses calendar year returns for the S&P 500 Index. Notice how risk falls as the time horizon increases. Yet investors with long time horizons tend to fear the next short-term move in the market.

Risk Falls And Return Stabilizes With A Longer Investment Time Horizon

Time Frame	Standard Deviation (Risk)	Best Annualized Return	Worst Annualized Return
1 Year	20.39%	52.60%	(43.30%)
10 Years	5.69%	20.07%	(0.96%)
20 Years	3.42%	17.86%	3.11%
30 Years	1.38%	13.71%	8.48%

Source: Standard & Poor's, TriVant Custom Portfolio Group, LLC

Lessons Of History

Equity markets have created wealth for many over the years as the public has had more access to investing choices through mutual funds, the lowering of brokerage commissions and the creation of IRAs and 401(k)s. Since its inception in 1926 the S&P 500 Index has returned an annualized rate of 9.87% through 2010. An investment of $10,000 would have grown to nearly $30 million assuming market returns. But missing time while on the sidelines can be hazardous to your wealth. The table below illustrates shows the consequences of missing short periods of market returns.

Growth Of $10,000 Invested In The S&P 500 Index: 1980-2010

	Annualized Return	Ending Value
Staying Invested	11.36%	$280,740
Missing The Best 5 Months	9.35%	$159,900
Missing The Best 10 Months	7.72%	$100,390
Missing The Best 20 Months	6.30%	$66,551
Missing The Best 30 Months	5.02%	$45,687

Source: Standard & Poor's, TriVant Custom Portfolio Group, LLC

We think the ultimate lesson learned is that a disciplined long-term proper asset allocation strategy is the best way to help you accomplish your investment objectives.

Stock Market Spotlight

Stocks Are Off To A Good Start In 2011

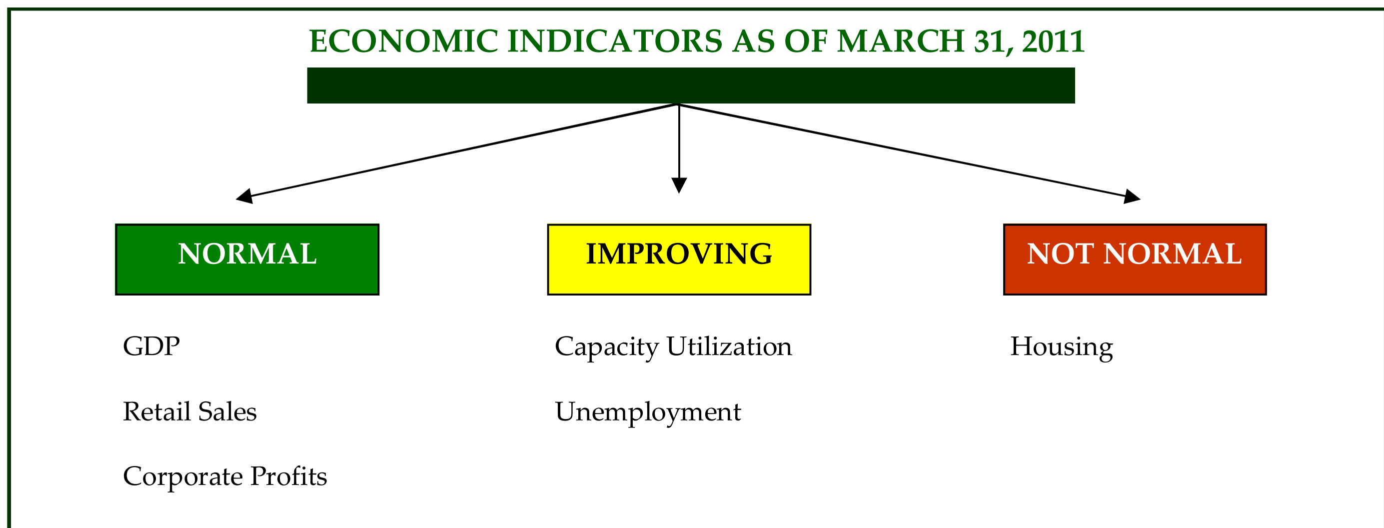
In the First Quarter, the domestic S&P 500 Index rose 5.92%. Although all ten sectors of the S&P 500 Index had positive performance, only two sectors (Energy and Industrials) exceeded the index. Energy (+16.29%) was by far the leading sector in the First Quarter, attributable to almost half the gains in the overall market. Events in the Middle East, Northern Africa, and Japan rattled the oil markets, causing high trading volatility and speculation. Unusual events are impossible to predict and make Energy a challenging sector to assess regarding portfolio strategy.

Many investors remain on the sidelines and continue to miss the stock market rebound. Average daily equity-trading volume on the largest U.S. exchanges fell 8.2% from the First Quarter of 2010 (source: Bloomberg). Wall Street trading revenue fell for the fourth consecutive quarter.

We Remain Bullish - More Economic Indicators Are "Normal" Than "Not Normal"

We do not derive our US economic outlook, and ultimately our stock market view, from any one economic indicator. Rather, our outlook is derived from many indicators, each of which we interpret as "normal" (positive), improving, or "not normal" (negative) in the context of historical data.

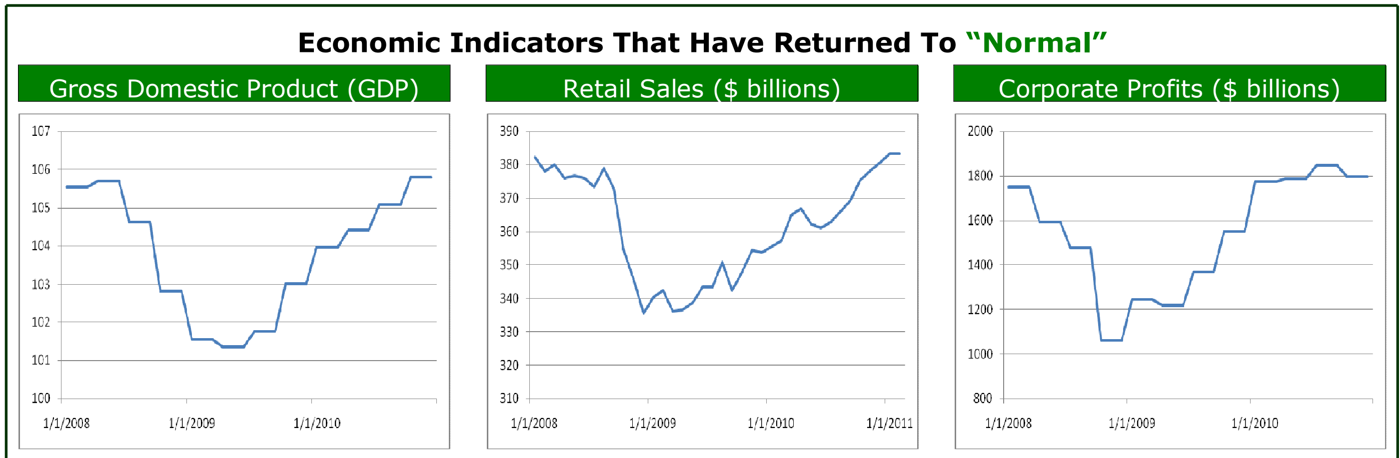
Taken as a sum of the parts versus isolating individual parts, do we conclude the indicators cumulatively translate to potential future market strength? Right now, we believe they do. This is why we remain bullish.



GDP, Retail Sales, and Corporate Profits Are Back To "Normal"

Real gross domestic product (GDP)- the output of goods and services produced by labor and property located in the United States- increased at an annual rate of 3.1% in the Fourth Quarter 2010 (source: Bureau of Economic Analysis). In the Third Quarter 2010, real GDP increased 2.6%. To put GDP improvement in perspective, First Quarter 2009 real GDP was -4.9%. GDP has returned to normal, which bodes well for the economy and the stock market.

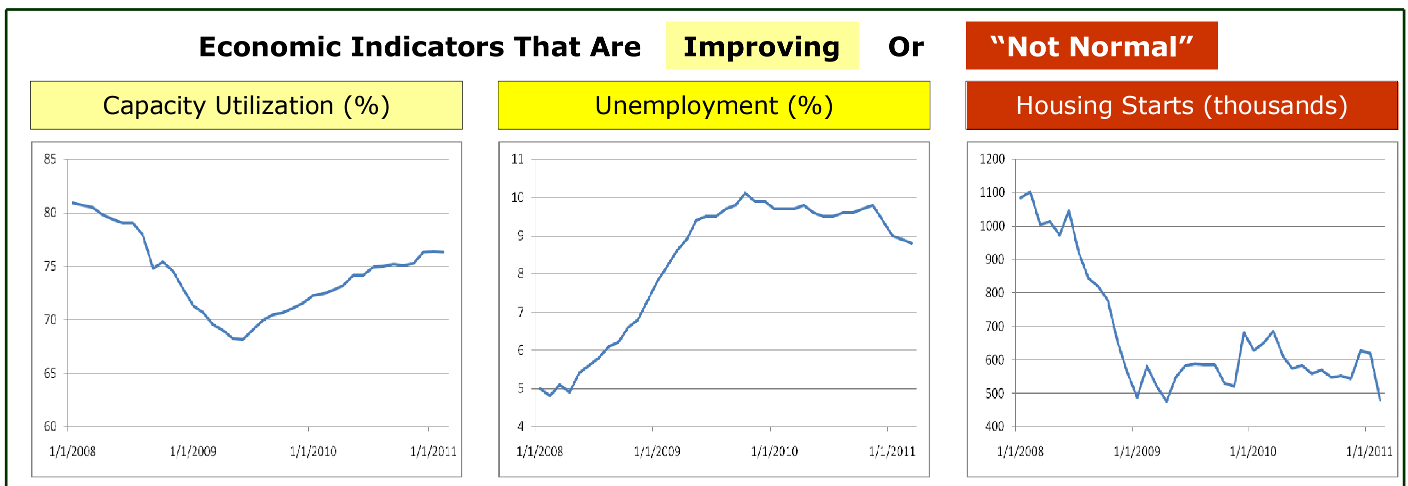
Retail sales has increased 15% since its low point in First Quarter 2009, returning to its "normal" level it had at the beginning of 2008. The American economy is driven by consumer spending, and we view improving retail sales as a bullish indicator for the stock market. Corporate profits before taxes have increased almost 80% since the beginning of 2009.



Capacity Utilization and Unemployment Are Improving

Capacity utilization measures the extent to which the US uses its productive capacity. It refers to the relationship between actual output that is produced and the potential output that could be produced with it if the capacity was fully utilized. Capacity utilization is improving from its First Quarter 2009 low point, which indicates that there is still potential for more output without inflation.

Unemployment peaked in the Third Quarter 2009, and is finally showing signs of improvement.



Housing Is "Not Normal"

The housing market is not normal. Housing starts continue to fall, yet the economy is recovering. There are some areas outside the classification of economic indicators that are not normal. Recent events in Japan and Libya are not normal, but we view their effects on the market as fleeting versus lingering. Quantitative easing (QE2) is not normal, and it is not certain at this point if quantitative easing will cease in June. The deficit remains a hot topic of debate, but we do not view the deficit as a stock market threat at this time.

We believe the "normal" and improving economic indicators outweigh anything considered "not normal". We remain bullish.

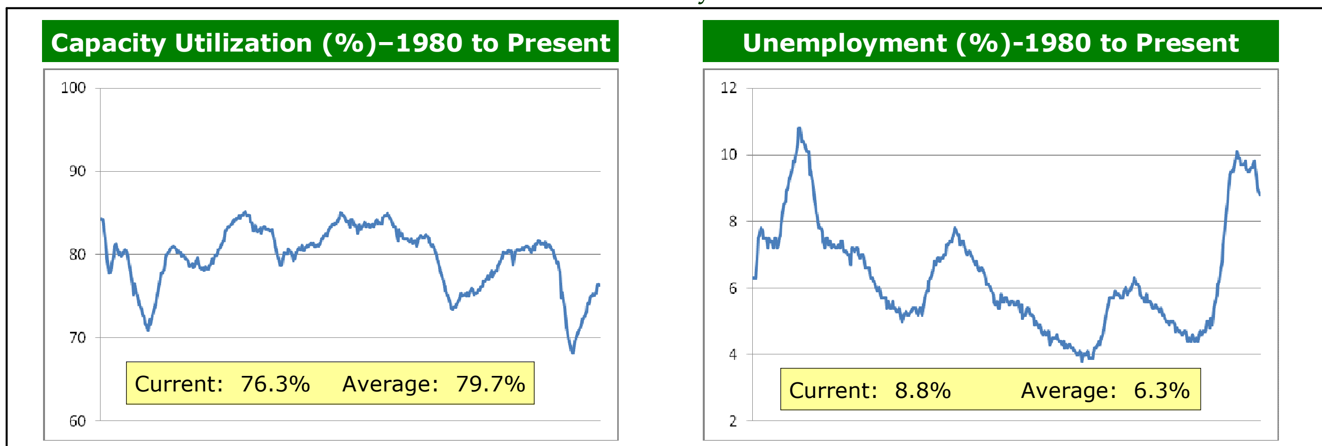
Bond Market Spotlight

We Feel It Is Prudent To Have Inflation Protection Before It Becomes A Problem

The Barclay's Capital U.S. Government / Credit Bond Index, a broad-based representation of bond performance, returned a miniscule 0.28% in the First Quarter. Inflation over the last year (as of February), as measured by the Consumer Price Index (CPI), has remained tame at 2.16%.

Today's bond market debate is between those who believe weak dollar policies will cause inflation versus those who believe slack in the economy will prevent it. The recent tragic earthquake in Japan, along with a potential U.S. government shutdown, further muddies the argument.

Capacity utilization is below its historical average, and unemployment is above its historical average. While these measurements are improving and indicate a U.S. economy on the mend, we are not quite back to a normal state. There is still slack in the economy.



Slack in the economy is keeping a lid on inflation. Fed Chairman Bernanke stated in an interview with 60 Minutes, which aired in December, that "this fear of inflation, I think, is way overstated". Policies which include large deficits and quantitative easing (QE2), along with low U.S. interest rates, have caused some weakness in the U.S. Dollar. We believe that the Fed will quickly raise interest rates should inflation start to occur outside of commodities. This should stabilize prices and the dollar.

As of December, Japan holds $882 billion of US Treasurys, which represents 19.9% of all foreign ownership (second to China). The tragic earthquake will likely cause Japanese demand for Treasurys to fall as Japan redirects funds to pay for cleanup and reconstruction. It is also possible than Japan sells some Treasurys to raise needed funds. The situation in Japan could point to falling Treasury prices.

A potential U.S. government shutdown could result in higher interest rates as buyers of government debt will demand a higher risk premium. If this happens, it is likely we will see falling Treasury prices.

While we do not yet view inflation as a problem, we believe it is prudent to own some Treasury Inflation Protected Securities (TIPS) for clients who have bonds. Also included in the overall bond allocation is a considerable (60%) weighting in corporate bonds. We have a target bond duration of under 4 years. Duration is a measurement of the price sensitivity of bonds to changes in interest rates. Theoretically a 4 year duration would mean that bond prices will fall 4% for every 1% increase in interest rates.

Your Portfolio

The stock market is a forward indicator. The beginning stage of the economic recovery started 18 months ago. Stocks have appreciated considerably over the last 24 months, some more than others. As a rule of thumb, we do not want to have any one individual stock comprise close to 5% of a portfolio.

Two stocks, Apple and Starbucks, appreciated at a greater rate than most others in the portfolio. We trimmed back exposure to these stocks for risk control considerations.

Style rotation is an important part of our portfolio management philosophy. Different stocks and sectors tend to perform better at various stages of an economic cycle. By rotating out of the "less favorable" styles and rotating into the "more favorable" styles, we have a greater chance of beating our S&P 500 Index benchmark.

We believe we are entering the second stage of the economic cycle. Best Buy (a retail stock) and Caterpillar (an industrial stock) were better suited for the first stage of the economic cycle. We sold these stocks. We also sold HDFC Bank (a large bank in India) when the Indian government raised interest rates to combat inflation.

We purchased Peabody Energy (a coal company), Time Warner (a media company), and PNC Financial Services (an emerging U.S. bank). Peabody Energy diversifies our Energy exposure as the economy continues to expand. Time Warner derives 70% of its revenues from cable, which we view as a growing business in the next stage of the economic cycle. PNC Financial Services will benefit from its National City acquisition.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

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Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.