

Developments in Japan and the Middle East have elevated the risks to global growth expectations, particularly given their follow-on effect of surging energy prices. Meanwhile, here at home, Fed policymakers face increasing pressure to tighten monetary policy, while elected officials scramble to make headway on the impossible task of trimming the federal budget.

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Great Expectations Gone Awry

In just a few short months, the balance of risks and catalysts for the economy has shifted. While certainly not enough to derail the global recovery or cause a return to recession, this shift is enough to warrant caution particularly given the markets' muted response. Indeed, investors have remained almost wholly focused on corporate profits, which have recovered at the fastest rate in history and have benefited from low interest rates, tremendous cost cutting efforts and rising productivity levels.

However, we believe that the unabated surge in commodity prices could prove to be the wild card that slows further market appreciation. While the next few weeks should give us evidence as to the impact of commodity inflation on first quarter corporate earnings, the full impact is likely to be felt in the second quarter and beyond. Earnings expectations remain high and companies that disappoint investors are likely to be met by a wave of selling pressure, which could cause the upward trend of the market to be broken in the short-term.

As input costs impact corporate bottom lines, macroeconomic conditions may also serve to temper corporate profit growth. More significant than the natural disasters in Japan and strife in the Middle East are the efforts underway in developed and emerging economies across the globe to tighten monetary and fiscal policy, in some cases to rein in overheating expansion, and in others to correct decades of irresponsible deficit spending. For example, in the eurozone, despite the fact that Portugal is now following the path of Greece and Ireland, the European Central Bank has cut off its asset purchase program and just made the move to raise interest rates. In the emerging economies, despite already notable efforts to tighten fiscal and monetary policy, central banks in these regions are struggling to contain inflationary pressures, as input costs have rapidly risen to levels not seen since the second quarter of 2008. Additional efforts to curb rising costs and high capital inflows are likely, given the seepage of these inflationary pressures from

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– “Feeling Behind the Eight Ball”

commodities into core inflation rates, and will come irrespective of a decline in export demand. Even in Japan, reconstruction spending will have to be financed by higher taxes and cuts to other expenditures, dampening the strength of the rebound typically seen in a rebuilding nation.

Feeling Behind the Eight Ball

The U.S. has been the economy slowest to embrace fiscal and monetary austerity, but our day of reckoning may come sooner than anticipated. Recent rhetoric from Federal Reserve officials has acknowledged the inflationary potential of the monetary base, and it is a near certainty that the Fed’s controversial “QE2” intervention will not be extended beyond its scheduled expiration in June. With the drama-filled passage of the 2011 fiscal budget coming at the eleventh hour before a federal government shutdown, the stage is set for an even bigger showdown over the debt ceiling and 2012 budget. Meanwhile, pressures for fiscal restraint are even more pronounced at the state and local government level. Across the nation, layoffs and the restructuring of state employee benefit packages are just a few steps along a path of fiscal austerity that will surely have to include higher taxes and fees for all constituents now that most municipal excess reserve funds have been depleted.

Apart from these challenges, the U.S. economy was able to generate moderate GDP growth, aided by the tailwinds of accommodative monetary and fiscal policy and achieved even with the impediments of a renewed decline in the housing market and a slow upturn in employment. Consumption has revived, but it lacks the dynamism of prior expansions as gains in personal income remain limited and the deleveraging process continues. Now, as the price of crude oil tops \$105 per barrel, it may be difficult for consumers to sustain current spending levels given

the sticker shock of prices at the pump. Add to the mix a move higher in interest rates, cuts in unemployment benefits and other services, and a restructuring of the Social Security and Medicare/Medicaid system as we know it, and it would seem the downside risks to growth are mounting.

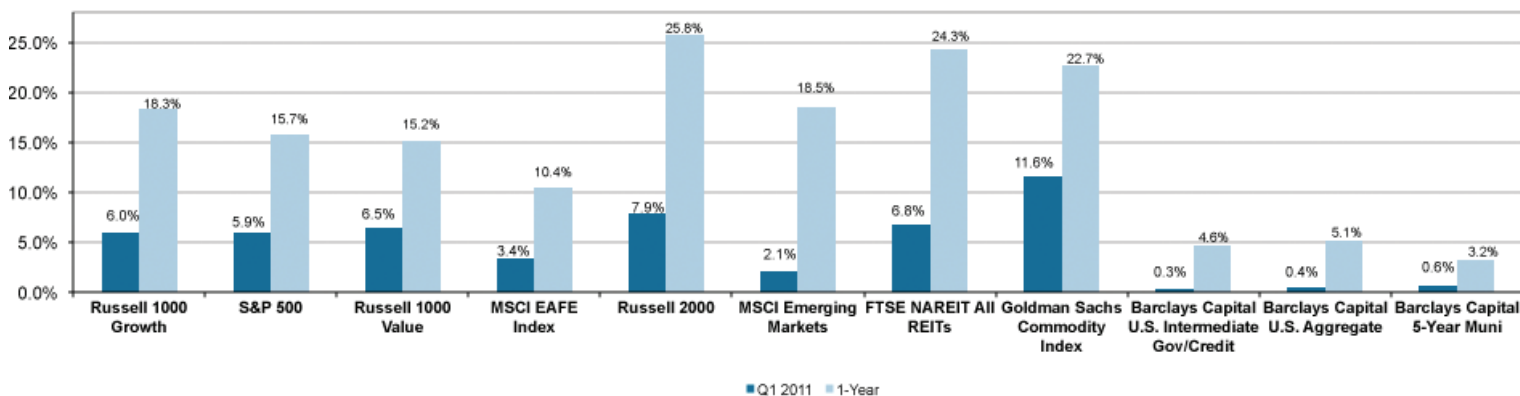
Therefore, while markets may take a run at the highs attained in 2007, resulting in another double-digit gain, we feel such strength is unlikely to last into the second half, as global growth is slowed by these more restrictive policies. After all, equity markets rarely rise in the face of declining economic growth rates.

Solid Defense at Times the Best Offense

Our more cautious views have caused us to position client portfolios more defensively, by reducing allocations to those asset classes we deem to have the highest risk and to accumulate some cash. Within equities, we favor U.S. and emerging markets over developed international, where the ongoing problems of the European periphery and the fallout of the natural disasters in Japan will likely compound the risks to growth in those regions. In regards to the eurozone in particular, the stance of core economies towards bail-outs is hardening, and it is our view that one or more peripheral governments will eventually be forced to default. Doubts over the future of the eurozone itself look likely to persist, if not escalate. Therefore, even though we expect the U.S. and emerging market economies to face volatility as well, we see these regions as better positioned to handle the implementation and effects of fiscal and monetary tightening.

We maintain neutral weightings in both large cap and small and mid cap names and do not expect the performance differential to be significant between these asset classes. While the larger, higher quality names have more flexibility to manage adjusting growth expectations and rising input costs, they are also typically deriving a

Broad Market Index Returns

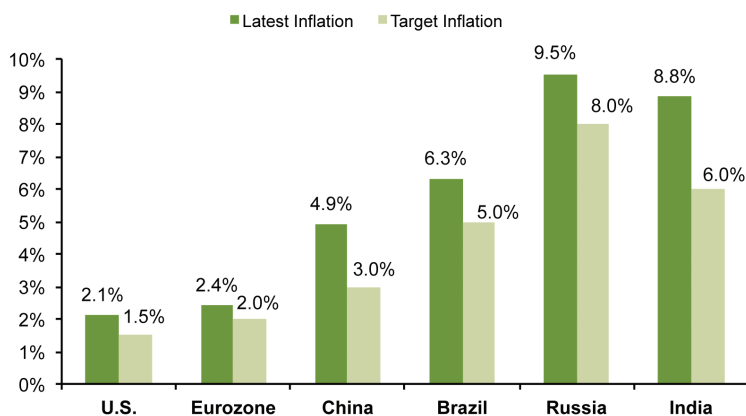


growing proportion of their revenue outside of the U.S., where we see greater risks. However, smaller capitalization companies have fewer levers to pull in order to lower costs when faced with rising expenses.

Beyond equities, we believe it is a good time to begin realizing profits in the commodities markets, which continue to outperform all other broad market indices. Given our view of adjusting global growth expectations, however, we expect the run in commodities to reach a peak in the near-term, though precious metals could continue to rise on concerns around inflation and fiat currencies. Even so, we are cautious about stepping in at current elevated trading levels.

Elsewhere in alternatives, we advocate exposure to hedge fund investments from a diversification and risk management standpoint as well as a potential hedge against the prospect of declining equity markets and rising interest rates. We believe that the 2011 vintage year will prove to be a solid entry point for private equity investments, with the understanding that capital will be deployed over the next few years. We are more cautious on public real estate, given their dominating performance since 2009, but see value in private limited partnership investments deployed thoughtfully over time by expert managers.

Finally, after a difficult end to last year, bond yields stabilized in the first quarter of 2011, though they remain at risk for upward pressure as global central banks make coordinated efforts to tighten monetary policy. We continue to emphasize defensive bonds that offer incremental yield spread in short and intermediate-term maturities, and advocate individual bonds over bond mutual funds for maximum principal protection.



Upcoming Events

Empowering our clients through knowledge is a cornerstone of the Silver Bridge Value System. Our educational platform was designed in response to our clients' needs and continues to evolve in anticipation of their challenges and concerns. We offer innovative programs for our community of clients, business partners and guests.

May 9, 2011, 5:00-9:00PM

[A Fresh Perspective on Asset Allocation:](#)

[Aligning Your Investments with Your Goals](#)

Explore goals-based investing at a cocktail reception and discussion with Ashvin Chhabra, creator of the innovative Goals-Based Wealth Allocation framework, and Kristi Kuechler, a consultant to families and advisors on issues relating to investment philosophy, advisory structures, and family governance. Moderated by Silver Bridge Managing Director Dune Thorne, the discussion will address new thinking in wealth and risk allocation for families and its importance in today's challenging market environment.

May, 2011

[Planned Giving Luncheon, Philadelphia, PA](#)

Silver Bridge is pleased to sponsor a Planned Giving luncheon at the Opera Company of Philadelphia. Kelley Reilly, Senior Client Advisor at Silver Bridge will speak about the different ways philanthropists can support non-profits and charities and maximize the value of their gifts as part of a family's overall wealth plan.

Other Events

May, 2011

[Willowdale Steeplechase WaterJump Auction Ball, Wilmington, DE](#)

Silver Bridge is proud to support the Willowdale Steeplechase WaterJump Auction Ball and the 19th running of Willowdale Steeplechase. The Auction benefits Quest Therapeutic Services Inc., Stroud Water Research, and the University of Pennsylvania School of Veterinary Medicine New Bolton Center.

May 24, 2011, 4:30-8:00PM

[Office Opening](#)

Join us for cocktails and hors d'oeuvres in celebration of the growth of the firm and the opening of our new Boston headquarters.

For more information about these events, please contact Lindsay Muse at 617 502 9451 or at lmuse@silverbridgeadv.com.

Return of the Dividend

Financial sector stocks – specifically, banks – were long a staple of the conservative equity investor's portfolio, offering a steady, stable dividend stream. However, as pressure mounted to deliver outsized returns, many banks engaged in practices that levered up their businesses. The most perilous of these practices was sub-prime lending, when banks would extend mortgage credit to lower quality borrowers, charging higher rates but requiring little in the form of collateral or even documentation.

During the housing crisis, when many sub-prime borrowers struggled to meet their obligations, these pools of securities became a risk for banks, for as the crisis intensified, prices plummeted. As banks struggled to shore up their ailing balance sheets, dividends were slashed in an effort to preserve capital. The acceptance of TARP monies only served to create even more conservatism on the part of company management, with shareholders bearing the brunt.

March of 2011 marked another chapter in the story, as many of the largest U.S. banks – including JPMorgan Chase, Wells Fargo, and US Bancorp – announced their intention to meaningfully raise their dividends, and in some cases, buy back a significant amount of stock. Although not yet at levels seen before the financial crisis, the announcements mark the end of the acute phase of what may prove to be a lingering illness. Perhaps the most important takeaway from these changes is that all were subject to U.S. government approval; in fact, Bank of America was denied its request for an increased payout ratio. It is this contentious relationship between a government intent on managing the risks of financial institutions and banks striving to return to their former operating methods and profitability that make the banking sector still a treacherous investment terrain, even with these new and improved cashflow payouts.

	Old Dividend	Average Yield	TARP Injection	New Dividend	New Yield
JPMorgan Chase	\$1.52	3.40%	\$25 billion	\$1.00	2.20%
Wells Fargo	\$1.36	3.00%	\$25 billion	\$0.48	1.50%
Bank of America	\$2.56	3.80%	\$45 billion	\$0.04	0.30%
US Bancorp	\$1.70	4.00%	\$6.6 billion	\$0.50	1.90%
Bank of New York Mellon	\$0.96	2.50%	\$3 billion	\$0.52	1.80%
BB&T	\$1.88	3.60%	\$3.1 billion	\$0.64	2.40%

Family Governance

One of the greatest concerns of families today is the ability to pass down their legacy from one generation to the next. As family dynamics become more complicated and families strive to retain harmony and unity, governance structures can serve to support their goals and vision.

For larger family enterprises, the most effective structure of governance is called a Family Assembly (branches of the family gather, related through marriage and direct lineage). The Assembly's key priority is to pass on the family's core values through governance of all the family's interests and to educate the next generation.

The Assembly often creates, nominates and votes into position members of a Family Council. Family Councils are typically structures that serve to "govern" and extend the values and mission of the family to the Board of Directors of a Family Business, a Family Foundation and/or a Family Office. The Council may also oversee real estate ownership and property management if they share real estate.

Family governance structures can help improve communication and create clarity and a collective family vision, allowing the family to continue to grow its legacy. For more information please contact Allison Taff at ataff@silverbridgeadv.com or 617 502 9454.

Allison Taff is Director of Family Office Partners, a boutique dedicated exclusively to the needs of complex and sophisticated families, offering customized resources and outsourced solutions in a flexible and collaborative manner. Ms. Taff works with her colleagues in order to create an enhanced client experience for family office clients.

Cynthia Adams Harrison, Ed. D., LICSW is Faculty and Curriculum Development Advisor to Silver Bridge Institute, an educational platform developed to meet clients' growing need for trusted education. Dr. Harrison is a performance consultant specializing in leadership and organizational development. She brings her unique experience of using performance metrics and applies them to the challenges inherent in continuing the family legacy in family business, succession and the governance of family interests.