



MARKET PERFORMANCE — FOURTH QUARTER 2010

The Quarter in Brief:

Stocks rallied in the fourth quarter to cap off a respectable yet volatile year for equities. Significant Republican gains in the November elections helped fuel the rally on expectations of a more business friendly environment in 2011. The Republican victories also prodded the president to cut a deal to extend the Bush tax cuts in late December, preserving the lower tax rates for capital gains and dividends for all taxpayers. The Fed's November decision to purchase an additional \$600 billion in Treasuries also helped buoy the market. Lastly, a spate of generally good economic data helped push stocks higher. On the flipside, investment grade bonds generally sold off during the quarter as interest rates trended higher on the positive economic news. Most Treasuries and municipal bonds lost ground.

Domestic Economic Health:

Blue chip economists surveyed by the Wall Street Journal expect the nation's GDP to have grown at a rate of 2.6% in the fourth quarter, following growth of 2.6% in the third quarter. In general, economic data on trade, retail sales, consumer sentiment and manufacturing during the fourth quarter came in better than expected. The rate of unemployment, though, remained stubbornly high at 9.8%. The same economists expect growth to approximate 3% in 2011. The extension of the Bush tax cuts as well as a new payroll tax cut are expected to help fuel growth in the coming year. Primary areas of concern cited by the economists included sovereign debt issues surrounding Europe and ongoing weakness in the housing market in the U.S.

According to Thomson Reuters, companies in the S&P 500 are expected to post strong earnings growth of 32% in the fourth quarter relative to the fourth quarter of 2009. For all of 2010, profits are expected to have grown a robust 38%, helping spur the rebound in the equity markets. For 2011, profits are forecast to rise a respectable 13%. Some strategists worry currently elevated profit margins will contract in 2011, resulting in more modest earnings growth.

The 10-year Treasury fell during the quarter with the yield rising sharply to 3.30% from 2.52%. The rise in interest rates reversed a trend of falling rates over the last several months and came despite the start of the Fed's program to buy \$600 billion in Treasuries in the coming months. Reasons for the sell-off include improving economic data throughout the quarter and, arguably, the decision by investors to "buy on the rumor and sell on the news" with respect to the Fed's actions concerning Treasury purchases. Municipal bonds in particular sold off during the quarter. In addition to the rise in rates, municipal bonds were also hurt by the extension of the Bush tax cuts (making municipal bonds less attractive) as well as a flood

of issuance of Build America Bonds, whose program expired at year end. High yield bonds had another good quarter as investors rotated funds into more credit sensitive issues and out of high quality bonds that suffered losses as rates rose.

The Fed kept the Fed Funds rate unchanged at its November and December meetings. At its November meeting, the Fed stated that it would purchase an additional \$600 billion of longer-term Treasury securities. The additional Treasury purchases, referred to by some as quantitative easing 2 or QE2, are expected to run through the second quarter of 2011. In its statement following the December meeting, the Fed reaffirmed its commitment to QE2, citing stubbornly high employment, a depressed housing market and low levels of inflation. Many Fed observers do not expect rates to rise until the unemployment rate drops significantly from its current level of nearly ten percent.

Currencies and Commodities:

The dollar rose vis-à-vis the euro as sovereign debt issues flared again, with Ireland receiving a bailout package from the International Monetary Fund and the EU in November. For the full year, the dollar rose 7.1% against the euro. Many strategists expect the euro to remain under pressure in the early part of 2011 as Spain and Portugal (two members of the infamous PIGS quartet) have to come to market with large debt offerings. On the flipside, while the dollar was little changed against the yen on the quarter, it lost 12.8% on the year. The yen's strength was somewhat surprising given the country's weak economy and massive debt burden of nearly 200% of GDP.

Gold turned in another strong quarter, rising 8.7% to \$1,421 an ounce. For the year, gold rose 29.8%. Meanwhile, copper, considered an economically sensitive metal, rose 21.64% for the quarter and 33.4% for the year. Many soft commodities also rose sharply in 2010. Corn and wheat rose 51.8% and 46.7%, respectively, while coffee jumped 76.9%. Lastly, oil settled at \$91.38 per barrel for a gain of 14.27% for the quarter and 15.15% for the year. Oil's gain was driven by improving economic data at home and abroad, as well as a reduction in high inventory levels seen earlier in the year.

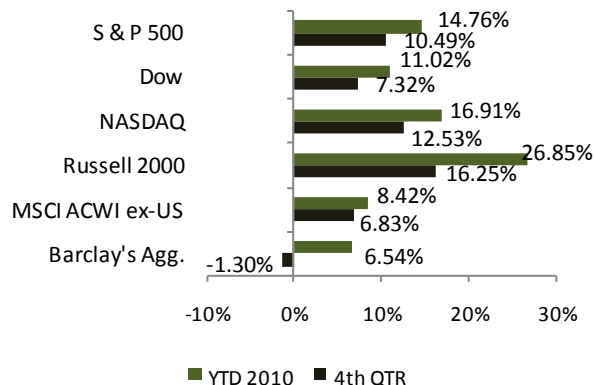
Congressional Action:

Republicans gained control of the House and picked up seats in the Senate in the mid-term elections. In the aftermath of the defeat, Democrats agreed to an extension of the Bush tax cuts for all taxpayers for two years. Included in the tax package was a payroll tax cut and the extension of unemployment benefits for another year. The tax cuts are expected to boost growth in the coming year but will exacerbate the already yawning federal budget deficits. House Republicans are expected to tackle the issue of excessive federal spending and set out a path towards a balanced budget.

Overseas Markets:

Overseas markets rallied alongside the U.S. markets. The MSCI EAFE Index gained 6.61% for the quarter and 7.75% for the year. Germany rose 16% on the year as the export powerhouse benefited from weakness in the euro and strength in emerging market economies. On the flipside, Japan's Nikkei posted a loss of 3% for the year, with exports suffering from strength in the yen. Emerging markets as a whole turned in a solid quarter and a strong year. The MSCI Emerging Market Index rose 7.05% for the quarter and 16.36% for the year. Of note, the Shanghai market fell 14% on the year on concerns about interest rate increases intended to ward off inflation.

Market Scorecard



2011 First Quarter Outlook

Stocks enter the New Year with strong momentum. The economy, while still fragile, appears to have skirted a double-dip recession and is poised to post solid growth in the year ahead. Fiscal stimulus in the form of the recent extension of the Bush tax cuts and a new payroll tax cut should help propel growth. Additional stimulus will likely come in the form of an accommodative Fed, with Bernanke expected to err on the side of removing stimulus too late as opposed to too soon. Moreover, more centrist policies in the aftermath of the 2010 mid-term elections may boost confidence in individuals and business leaders alike. A pick up in mergers and acquisitions by companies flush with cash may also serve to propel the markets in the months ahead.

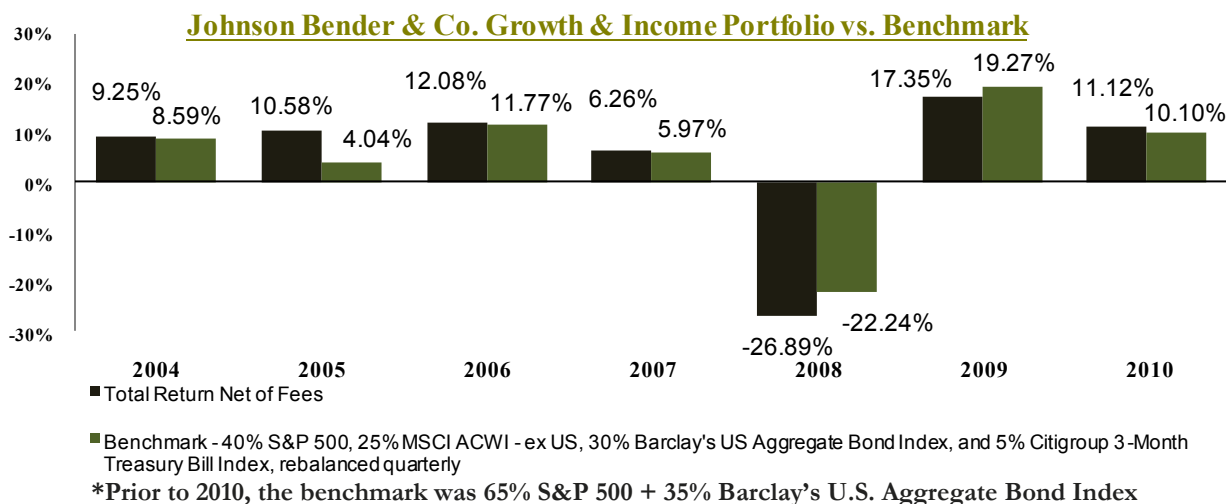
Seasonal factors too may help drive the market higher. The third year of a president's term historically has produced the best stock market returns of all four years in a presidential cycle. According to Standard and Poor's, the third year of a presidential cycle has averaged 17.1% since 1945, three times as large as the next best year of the cycle. While historical performance can provide needed insight into the markets, it is important to understand that past performance or trends do not guarantee future results.

Headwinds clearly exist. The housing market, ordinarily a linchpin of economic recoveries, remains very weak. Elevated inventory levels and mounting foreclosures will likely pressure the housing market for much of the year. The unemployment rate remains stubbornly high with companies reluctant to take on the added costs of new workers. Sovereign debt issues in Europe

will likely resurface during the year, as both Spain and Portugal will have to come to market with large debt offerings to roll over maturing debt. Lastly, central banks in emerging markets may start to raise interest rates to ward off mounting inflationary pressures.

Specific strategies for 2011 include the following:

- Overweight energy stocks. Strong demand from emerging markets should drive the price of oil higher in 2011.
- Overweight technology stock. Technology stocks generally sell at reasonable valuations and should post strong earnings growth in the New Year.
- Overweight emerging markets. Expected growth rates outweigh the risks associated with rising interest rates to combat inflationary pressures.
- Overweight large cap U.S. companies that pay good dividends and have global brands that will help drive sales in emerging markets.
- Gravitate to shorter term fixed income securities as we expect interest rates to trend moderately higher throughout the year.
- Underweight Treasuries, which we do not think offer a good risk-reward profile.
- Overweight high yield and other credit sensitive fixed income securities. Yield spreads remain attractive and defaults continue to trend lower.



Past performance cannot guarantee comparable future results. The JBC Growth & Income Composite was created on December 31, 2003. The composite is defined to include all fully discretionary accounts over \$250,000 that are managed according to the growth and income strategy (65% equities, 30% fixed income investments and 5% cash). Periodically, the portfolios may deviate from these allocations based on market conditions. The equity holdings will generally resemble those equities that comprise either the S&P 500 or the MSCI AWCI (All World Country Index) ex-U.S. The fixed income holdings will generally resemble the Barclay's U.S. Aggregate Bond Index. However, if market conditions warrant, the portfolio may include investments in floating rate loans, high yield bonds, international bonds, preferred stocks and CDs. Lastly, the portfolio may include commodity holdings depending on market trends. All performance figures for the composite and benchmarks are net of management fees and expenses unless otherwise noted, include the reinvestment of dividends, are reported in U.S. dollars and reflect the changes in net asset value. All performance figures are as of December 31 of the year noted.

New Estate and GST Tax Laws



Following the unexpected lapse of the estate and generation skipping transfer (“GST”) tax on January 1, 2010, the president signed into law new rules concerning federal estate, gift and generation-skipping transfer tax laws in December. The estate tax and GST tax exemptions were set to revert back to \$1 million on January 1, 2011. It is important to note that these new tax laws lapse in 2013. Clearly, the new rules provide for significant planning opportunities for wealthy families.

Summary of Tax Legislation

Gift Tax: For 2011 and 2012, the federal gift tax exemption equals \$5 million, with the gift tax rate set at 35%.

Generation-Skipping Transfer (“GST”) Tax: In 2011 and 2012, the GST exemption equals \$5 million (indexed for inflation after 2011), and the GST tax rate is 35%.

Estate Tax: For 2010, 2011 and 2012, the federal estate tax exemption is \$5 million with a top federal estate tax rate of 35%. The recipient of the property will receive a step-up in basis to the property’s fair market value on the date of the decedent’s death. However, the executor of an estate of a person who died in 2010 can choose not to pay any estate tax and receive a limited step-up in basis on the decedent’s property.

Portability of Federal Estate Tax Exemption

Beginning in 2011, a surviving spouse can use his or her deceased spouse’s unused federal estate tax exemption. The deceased spouse’s executor has to make an election on the deceased spouse’s estate tax return allowing the surviving spouse to take advantage of this opportunity. For example, a husband dies first with insufficient assets to fund his by-pass trust, which can hold up to \$5 million in 2011. If the wife later dies with over \$5 million in assets, she can use the unused portion of the husband’s federal estate tax exemption amount to help reduce tax due on her property that exceeds the \$5 million amount. Of note, the GST tax exemption is not portable, so a person cannot use his or her deceased spouse’s unused GST exemption.

2013 Sunset

Unless Congress acts sooner, the legislation will expire on January 1, 2013. As a result the estate, gift and GST exemptions will revert back to \$1 million, and the maximum tax rate will revert back to 55%.

Notably Absent Provisions

There are no new provisions on grantor retained annuity trusts (“GRATs”) or valuation discounts. It was widely anticipated that any tax legislation passed this year may have contained rules requiring GRATs to have a minimum term of at least ten years. In addition, earlier proposals to limit valuation discounts such as those used in family limited partnerships were not enacted as part of the 2010 legislation.

FIRM ANNOUNCEMENTS & UPCOMING EVENTS

Shell Retirement Seminars

Plaza Club—February 8th

Westlake Club—February 10th

Event Seating is limited.

Contact Shelley Sodaro for more information:

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User Name:

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Forgot My Password  Unable to Logon 

Sources and Disclosures:

Wall Street Journal, Thomas Reuters, Barron's Magazine, Standard and Poor's

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