GenFi Investment Outlook:
On the Long Path to Recovery

Spring 2011

Remainder of 2011

Lower Growth

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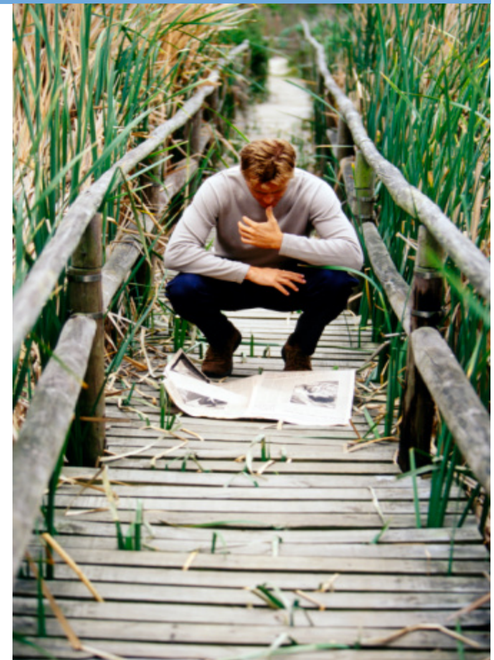
GenFi LLC

Family & Fiduciary Services

Remainder of 2011



Despite the stock markets recovery from its March 9th, 2009 low, most agree we are still feeling the effects of the financial crisis. The S & P 500 has risen 8.32% through April 30, 2011 while facing numerous headwinds that include rising costs for energy, food, health care, and education. Little in the way of improvements on home values, lending, and unemployment make fiscal and monetary policies a focus.

GDP for the 1st Quarter of 2011 was below many expectations at 1.8% (down from 3.1% in the 4th Quarter of 2010). There isn't much confidence inspiring about extended periods of high gasoline prices, rising taxes in many states, reduced government spending, and the impacts of those on consumer disposable income and behavior.

The recovery is maturing. Rapid gains seen in earlier stages from the severe lows are not sustainable. The market seems unfazed by the laundry list of obstacles based on only one positive factor: largely positive earnings. Consensus of opinion indicates slower growth for the remainder of 2011.

The below table summarizes market index levels and calendar year returns for years 2007 to 2011:

- Prime Rate in 2007 started at 7.25%, but has been at 3.25% now for over 3 years
- Treasury bond yields lowest since 1937 Depression
- Equity indices levels ahead of economy, with Small Cap Russell 2000 at all time high
- Gold more than doubled from $695 to $1,556

MARKET SUMMARY TABLE 1

Market Summary 4/30/2011 sources: morningstar, bloomberg, various										
	2007		2008		2009		2010		4/30/2011	
Bonds	yield/level	return	yield/ level	return	yield/level	return	yield/level	return	yield/level	return
U.S. 10-year	3.408	*10.20%*	2.665	*18.00%*	3.84	*-6.00%*	3.47	*9.40%*	3.26	*1.46%*
AA Muni 10-year	4.03	*3.40%*	4.08	*-2.50%*	3.26	*12.90%*	4.25	*2.40%*	3.65	*3.57%*
AA Corp 10-year	5.71	*6.97%*	5.25	*5.24%*	4.66	*5.93%*	4.14	*6.54%*	4.17	*1.70%*
Equities										
DJIA	13,264.84	*8.90%*	8,776.39	*-31.90%*	10,425.05	*22.70%*	11,577.51	*14.06%*	12,810.50	11.49%
S&P 500	1,468.36	*5.49%*	903.25	*-38.44%*	1,115.10	*37.21%*	1,257.64	*15.06%*	1,363.61	6.00%
NASDAQ	2,652.28	*10.80%*	1,577.03	*-39.70%*	2,269.15	*45.60%*	2,652.87	*17.79%*	2,873.54	8.32%
Russell 2000	766.03	*-1.57%*	499.45	*-33.79%*	625.39	*27.17%*	783.65	*26.86%*	865.29	10.79%
MSCI EAFE	2,253.35	*11.63%*	1,234.57	*-43.06%*	1,573.17	*32.46%*	1,658.30	*8.21%*	1,792.80	7.90%
MSCI EM	1,245.59	*39.80%*	567.04	*-53.20%*	989.47	*79.00%*	1,151.39	*19.20%*	1,204.03	4.57%
Commodities & Rates										
Gold	695.37		871.96		972.35		1,420.78		1,556.40	
Crude Oil	95.98		44.60		79.36		91.38		113.93	
Prime Rate	7.25%		3.25%		3.25%		3.25%		3.25%	
3 Month Libor	4.70%		1.43%		0.25%		0.31%		0.27%	
US Unemployment	5.00%		7.30%		9.90%		9.40%		8.80%	
Core Inflation/Deflation	4.10%		0.10%		2.70%		1.50%		1.20%	

Government Spending and Taxes

Equally as controversial as the Cubs but about 17 thousand times more costly, the Bailout programs required massive outlays in government spending. So, how effective were these policies? We must give credit to the plan for putting the brakes on the drastic market drop. The Dow went from a high of 14,164.43 on October 9, 2007 to a low of 6,443.27 on March 6, 2009. The spending programs also helped prevent any further panic driven bankruptcy's like Lehman.

In later stages of execution, rates have remained at record lows for an extended period without much increase in lending activity. Bank reserves increased in lock step with Fed liquidity injections because the Fed now pays banks interest on reserves - removing lending incentives. The below table displays projected results by the U.S. Treasury from its implemented Bailout policies.

The Cubs may have the highest debt-to-enterprise ratio of any team in major league baseball at 75%, but it doesn't compare to debt the U.S. has racked up. The U.S. will hit its self imposed debt ceiling of $14.29 Trillion on May 16 unless Congress acts to raise it before that date.

With the deficit ticker flashing on the news daily, S&P has issued the U.S. a "warning" by lowering it's outlook on U.S. Debt to "negative" with a one in three chance that the rating would go lower. If Congress does not address spending issues in short order, U.S. debt will no longer enjoy a "Risk-Free" status.

Bailout Policy - Cost/Effect Table 2 data: U.S. Treasury 3/30/11

Program:	Committed:	Spent:	Result:
Troubled Asset Relief Program AKA TARP	$700 Billion		
Banks		$245 Billion	$19.7 Billion Profit
* AIG		$68 Billion	$8 Billion Loss
Autos		$82 Billion	$14.8 Billion Loss
Housing		$45.6 Billion	$45.6 Billion Loss
Credit Markets Direct Purchase Trouble Assets		Minor	$500 Million Profit
Federal Reserve Programs	$1.7 Trillion		
Commercial Paper, $ Swaps, other		unknown	118.5 Billion Profit
Mortgage Backed Security Purchases		$225 Billion	$13.5 Billion Profit
Money-Market Mutual Funds		$50 Billion	$1.2 Billion Profit
Fannie Mae/Freddie Mac		$154 Billion	$73 Billion Loss
FDIC		$2.4 Billion	Break Even
* AIG		$114 Billion	unknown
* government still owns 92% of AIG stock - gain on sale of those shares targeted at:			$12 Billion Profit
NET PROFIT/LOSS		Projected	$24 Billion Profit

Peter Coy of Bloomberg writes in the April 24 issue of Bloomberg BusinessWeek: "Destroying the full faith and credit of the United States is no small matter. It's nauseating to witness such anti-debt posturing by some of the very lawmakers who created the debt in the first place by voting for spending hikes and tax cuts." Table 3 below shows how the U.S. debt ceiling has been raised since 1995.

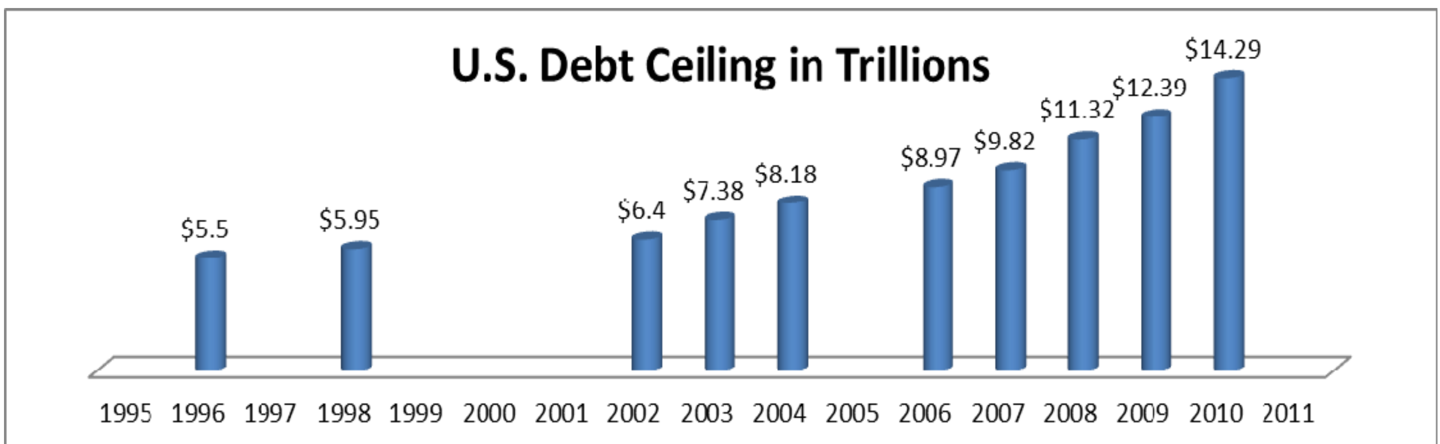
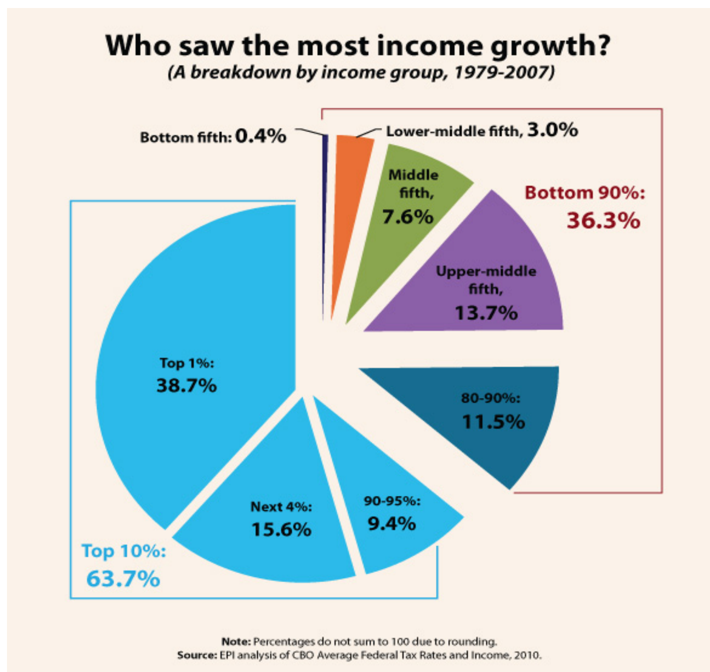


Table 3: Bloomberg Business Week April 24, 2011 Issue

Northwestern University Economics Professor Martin Eichenbaum recently spoke at the Chicago Federal Reserve on the Recession: How bad was it? Where is the U.S. now? Where are we headed? The recession was, relatively speaking, a worst case scenario from two perspectives: 1) The depth as measured by fall in GDP from prior peak and 2) The length measured by time to get back to prior peak. We are now mid-way through the long recovery cycle with real GDP vs. normal GDP down 8%. That translates into $13—$14 trillion less in discretionary purchases. When asked how we fix the biggest problem being government spending and the deficit, his answer: 1) Teach politicians math 2) Raise taxes 3) Cut spending.

As far as teaching politicians math, that might be a little like trying to remove the Cubs curse. However, time has proven that the markets like a plan. This is further endorsed by Larry Fink, CEO of Blackrock and one very large potential buyer of U.S. government debt. In a CNBC interview last week, he indicated he would be satisfied if the government announced a plan (details to be worked out later) to raise the debt ceiling and commit to deficit reduction of $4 Trillion minimum over 10 years. Three such plans exist: Obama's plan calls for a deficit reduction of $6.99 Trillion over 10 years, Bi-Partisan Gang of Six proposes a $5.32 Trillion reduction, Paul Ryan (Chairman of House Budget Committee) targets $5.45 Trillion (WSJ 5/1/11). None of the plans attempt a balanced budget within 10 years. At this level, Fink notes, a 1% increase in interest rates would double cost of U.S. debt service making required interest payments $800 billion. Drastic reductions in spending on social programs would be necessary. Even more alarming is the rate of growth on our debt exceeds nominal gross domestic product (Barron's 4/30/11). To better understand budget issues, we encourage you to review The Washington Post interactive U.S. Government Revenue and Expense chart at: http://www.washingtonpost.com/wp-srv/special/politics/30-years-spending-priorities-federal-budget-2012/



Just like the Ricketts, we still have to generate the revenue to service our debt. Obama's tax hike plan involves raising an additional $1 Trillion over 10 years from the top two income tax brackets. Unless spending cuts are identified and implemented, taxes will be increased across the board. With income inequality growing, there is pressure to increase the progressivity of the tax structure.

Inflation Timing

So what will happen when the Federal Reserve ends the Quantitative Easing II program in June? Long term rates should rise. Stocks may be more resilient than bonds based on the recent earnings season, but both stock and bond prices fell when the first easing program came to a close in the Spring of 2010.

If Bond yields go higher later in the year, say to 4.0%, it could attract more bond investors and create a positive trend for the U.S. dollar as funds come from riskier asset classes and foreign investment. Bill Gross, one of the best known and largest bond managers, has said he would not be on the short-list of buyers.

As for timing of inflation, to be sure, we are experiencing headline inflationary pressures on food and gas. The OECD found inflation in developed countries rose in March 2011 at the fastest pace since October 2008. In an article published by Market Watch on April 28, 2011 by Jeff Reeves, Titled "The 9 Places Where Inflation is Crushing Us" - there is certainly no shortage of evidence to illustrate this point.

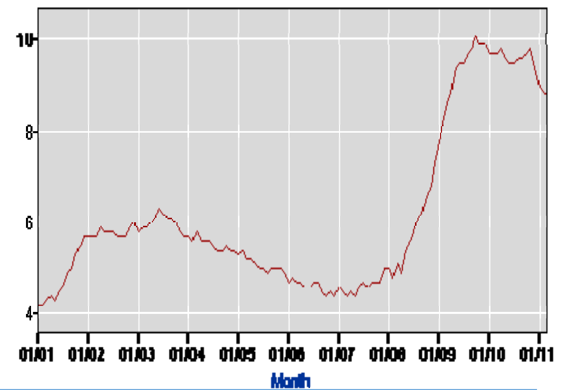
However, just a week ago, Ben Bernanke cited core inflation as contained. He intends to keep monetary policy accommodative and rates low avoiding the doubling of interest payments cited above. In 2002, the Fed took no tightening measure through 10 quarters of positive GDP. Another indication as to timing of Fed tightening would be unemployment closer to 5% and that seems unlikely until mid to late 2012.

Unemployment

The biggest issue holding back recovery is the unemployment rate. For April, it actually rose from 8.8% to 9.0% (Bureau of Labor Statistics). Although numbers indicate a gain in the estimated 8.5 million jobs originally lost to the recession, recent measures show first time claims at their highest levels in 8 months as of May 5, 2011. There are much higher levels on underemployment and youth unemployment. The impact of stimulus spending has been minimal on unemployment – from this perspective a failure. CEO confidence at a multi-year high (since 2004), corporate earnings and cash on balance sheets should be a positive for jobs and hiring for the remainder of 2011 and into 2012.

U.S. Unemployment 2001—January 2011

Table 4: Labor Force Statistics data.bls.gov

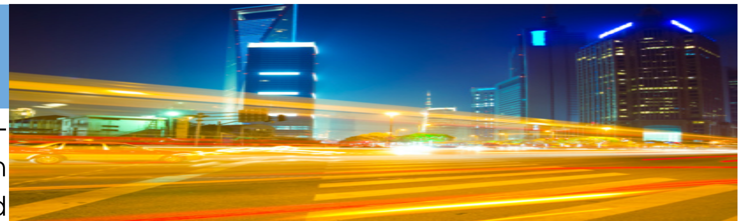


European Sovereign Debt

Concern about rising government deficits and debt levels across the globe has created alarm in financial markets. If we take a closer look at Exhibit 2, we'll find that the crisis (not limited to European countries such as Portugal, Italy, Ireland, Greece, and Spain) spreads to developed countries throughout the world. Debt restructuring in Greece is inevitable at this point and Eurozone sovereign debt problems will be an ongoing issue.

Debt as % of GDP 2000 vs. 2010		
	Household Debt	Govt Debt
United States	74 vs. 99	55 vs. 92
United Kingdom	77 vs. 114	41 vs. 77
Japan	70 vs. 62	16 vs. 178
Italy	52 vs. 76	109 vs. 118
Brazil	16 vs. 18	67 vs. 66
China	7 vs. 24	10 vs. 17
India	11 vs. 13	73 vs. 76
Mexico	10 vs. 7	27 vs. 22

Emerging Markets



Brazil, India, and China continue to produce compared to their developed nations counterparts. With over 80% of the world's population, 75% of its land mass, over 50% of its energy consumption, 27% of major league baseball players and 35% of world GDP these markets will continue to play a critical role.

Once viewed as a risky investment due to the political instability as well as rampant inflation issues, the emerging market nations are less levered than the developed—although not by their own design. EM debt levels have been a function of market imposed constraints, but the outcome is positive at this point.

Emerging markets proved resilient in the financial crisis and returned a 303% cumulative over the past 10 years rather than doting "the lost decade" reflected in the developed markets. Here is where lack of realistic diversification can hurt your portfolio. Money managers with few strategies typically don't endorse exposure outside of their own limited universe.

(Graph 6 Source: Lazard, Merrill Lynch, BP, CIA World Factbook, IMF World Economic Outlook, MSCI; Data as of 12/31/09)

Japan

Post the March 11th earthquake in Japan, the country has experienced not only extensive structural damage and human suffering, but also a health and nuclear energy crisis.

In order to stabilize financial markets, the Bank of Japan has injected more than $325 billion in yen into the economy. Economic forecasters now believe GDP may decline as much as 1% for the year.

Japan has the fourth largest economy in the world. It also now has a huge government debt exceeding 200% of GDP. This causes rating agencies concern. S&P lowered the countries debt outlook to negative at the end of April based on estimates of disaster costs.

Previously regarded as the most energy-efficient developed country, Japan has been much better prepared than any other country to prosper in an era of higher global energy prices. It's population and economy was once about 40% as large as that of the U.S yet it consumed less than a quarter as much energy according to the International Energy Agency. The earthquake leaves the nuclear power focused energy model unlikely to prevail.

Geopolitical Risks

After 10 years of searching for Osama Bin Laden, U.S. Intelligence announced May 1st they had finally found and killed the Al-Qaeda leader. While many celebrate this as closure to the 2001 bombing of the World Trade Center, the U.S. is now on heightened alert for retaliatory Al-Qaeda plots. It also brings into play tensions between the U.S. and Pakistan due to exclusion of Pakistan from the operation and proximity of Bin Laden to a Pakistan military facility.

Several other geopolitical issues cause concern. While civil unrest exists in many places: Libya, Syria, Yemen, Tunisia and Egypt, it has been internally focused. Middle east policy more independent of U.S. influence from Turkey and now Egypt could lead to conflicts with Israel.

Dodd Frank Reform

The Dodd-Frank Reform Act was passed in response to the financial crisis and included several measures to improve and insure the integrity of the U.S. financial markets. It was imperative to ease investor fears amidst market drop to the 2009 bottom.

The idea was to oversee Wall Street, regulate credit cards, loans and mortgages, hedge funds, and derivatives like credit default swaps. It provided improvements to FDIC funding, adding $5.7 billion from member banks. It also provided for the Government Accountability Office to audit the Federal Reserve. All are good measures, however, financial regulators are still in the middle of development - not all safeguards are in place. Some economists say its interesting how little the law actually did.

Another example of regulators lacking on follow through is the IPO spinning rule which expired in 2008. With a new round of tech IPO's in the works (groupon, Facebook, linked in), investment banks will have little regulation here. Despite efforts from FINRA to replace the rule, nothing is in place.

Unfortunately, much of the risks that existed prior to the market collapse still very much exist for investors today due to lack of follow through from regulators.

Strategic Portfolio Themes

With diverging global economies; the U.S., Europe/Japan, and the Emerging markets, all facing differing situations, responses, and key risk factors, the investment landscape in 2011 becomes more difficult to navigate. With the use of extensive research and resource networks, we develop ongoing portfolio themes, a few are shown below:

Theme	Asset Class	Outlook	Commentary
Emerging Markets	Debt & Equity	+	Near term EM Debt in local currency. Risk if Treasury yields > 4%. Long term EM Equities (valuations pricey now). Growth rates remain relatively higher, EM consumption at 35% > U.S. as % of global consumption
Inflation Strategies 2012	TIPS, Floating Rate Debt	+	Long term. Reevaluate increases to defensive fixed income at year end. Fed tightening farther out based on GDP growth, unemployment, and Fed policy history
U.S. Dollar Weakness	U.S. Large Cap	+	Exporting U.S. Multi-nationals will benefit, Positive earnings season and cash on corporate balance sheets should have positive impact on M&A, dividend policies and stock buybacks
Commodities	Agriculture/Timber	+/-	Short-term selective, gold, silver, metals bubbling too high, agriculture & timber more upside
Fixed Income	Global Fixed Income	_	Cautious - Waiting for yields to increase before increasing exposure here, still don't see value in some EU areas even at 20% yield based on impairment and haircuts expected. High Yield spreads normalized

Portfolio Review

An article in the May 1, 2011 WSJ by Jonathan Burton addresses the topic of portfolio stress testing. "Rather than be complacent, investors should take this chance to give their portfolio a stress test: Look at the risks it faces and strengthen any week spots" he writes. "Stress testing is no guarantee against losses, but including this in your portfolio review at least gives a baseline picture."

Jonathan also quotes Bernard Baumohl, chief global economist at Economic Outlook Group in Princeton New Jersey: "with the many complex issues affecting the market today, now is the time to review each of your portfolio holdings and make sure you are not overexposed to one country, one sector. Too many individuals, and even professionals, get into trouble by underestimating or ignoring what could go wrong."

A 50% Market Decline Requires a 100% gain just to get back to break even								
Market Decline	-10%	-20%	-30%	-40%	-50%	-60%	-70%	-80%
Required Gain to Break-Even	11%	25%	43%	66%	100%	150%	233%	400%

Only 7% of U.S. Investors portfolio's will reach the $1,000,000 mark per recent research from Spectrem Group. It's worth the extra effort required through planning and quarterly portfolio reviews to preserve the level of wealth you've achieved. To this end, GenFi is able to provide an initial portfolio review that will consider current risks, bring a truly independent, objective, and holistic approach and choices that place your best interest first.

Please call or email us if you have interest in this service.

You can reach us by phone: (872)-213-1113

or email at: jzakarias@generationsffs.com or adampierson@generationsffs.com

Our website completion target date is June 15.

All newsletters will be available on the site at that time.

Please email us at the above address with any feedback.

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YOUR LEGACY BEGINS WITH THE FINANCIAL GUIDANCE OF GENFI BRINGING FOCUS TO PRESERVATION AND GROWTH OF YOUR WEALTH