THE MARKETS

A PUBLICATION OF VANTAGE FINANCIAL PARTNERS LIMITED FIRST QUARTER 2011

The Last Quarter In Review

The Federal Reserve initiated additional monetary easing (QE2) and consumer purchases were the strongest in more than four years. This contributed to investor confidence that resulted in an impressive 4th quarter rally for the equity markets.

US Real GDP	Q 4 2010	Q 1 2010	Q 2 2010	Q 3 2010	Q 4 2010
	5.0%	3.7%	1.7%	2.6%	3.2%

GDP = consumer spending + business investment + government + (exports – imports)
Source: www.bea.gov

The fourth quarter of 2010 produced 3.2% growth in GDP (advance estimates) after a revised 2.6% in the third quarter. Real personal consumption increased 4.4% compared with an increase of 2.4% in the third quarter. Durable goods rose a robust 21.6%, nondurable goods increased 5%, and services contributed 1.7%. The increase in consumer purchases was especially encouraging since they make up the biggest portion of the economy.

For the year of 2010, the U.S. Department of Commerce estimated the economy grew 2.9%. This growth was predominately due to increases from private inventory investment, exports, personal consumption expenditures, nonresidential fixed investment and federal government spending. It will be important to see if the consumer will continue increased spending given the high unemployment rate of 9%.

Consumer Price Index	1 Year	3 Year	5 Year	10 Year
	1.22%	1.25%	2.05%	2.32%

Consumer Price Index numbers are annualized through 12/31/2010
Source: www.morningstar.com

The consumer price index gained .5% in December. The gasoline index accounted for about 80 percent of the increase. The Producer Price Index for Finished Goods rose 1.1% in December. This marks the sixth straight month of increase with the result that deflationary concerns have seemingly been put to rest for now.

Looking Forward

The economy has continued to show momentum and the equity markets have responded accordingly. The extension of the Bush tax cuts as well as the reduction in the Social Security tax for 2011 have helped to provide optimism for the economy and markets over the short term. However, we still face a lot of the same headwinds as we did moving into 2010, including the European sovereign debt condition and the growth of Federal debt, unemployment, excess housing supply and the municipalities' austerity measures in the U.S. In addition, we have been experiencing considerably higher energy costs which could act to slow the economy.

"But now that the worst of the recession is over, we have to confront the fact that our government spends more than it takes in. That is not sustainable." – President Obama in the 2011 State of the Union Address.

Corporate profits and revenues have predominately continued to exceed estimates. Productivity has remained high for a considerable period, which has allowed them to keep up with some increased demand. Assuming demand will continue to rise, it would be reasonable to assume that companies will need to add jobs, although this could put pressure on their future earnings.

Given the above dynamics we anticipate continued overall economic and market improvement for the year of 2011, but anticipate we will experience volatility along the way.

EQUITY MARKETS

Global equity markets experienced another strong quarter and finished the year well into positive territory for the second consecutive year. Investor confidence increased due to the continuing economic recovery, strong corporate earnings and a boost from more monetary easing by the Federal Reserve. The S&P 500 finished up 10.7%, followed by the Emerging Markets at 7.24% and 6.65% for the European, Australian and Far East Index (EAFE) for the quarter. Energy and Materials were the top performing sectors, returning 21.5% and 19% respectively, while Utilities and Health Care were the bottom performers, but still produced positive returns.

We continue to have an overweight allocation in the technology, health and energy sectors. The valuations and fundamentals in these areas still look most attractive compared with the market. Most of these companies have strong balance sheets, good profit growth potential, and attractive dividend yields.

The quarter was not without its volatility however, as the European debt crisis surfaced once again with Ireland becoming the second EU member (after Greece earlier in the year) to receive financial aid.

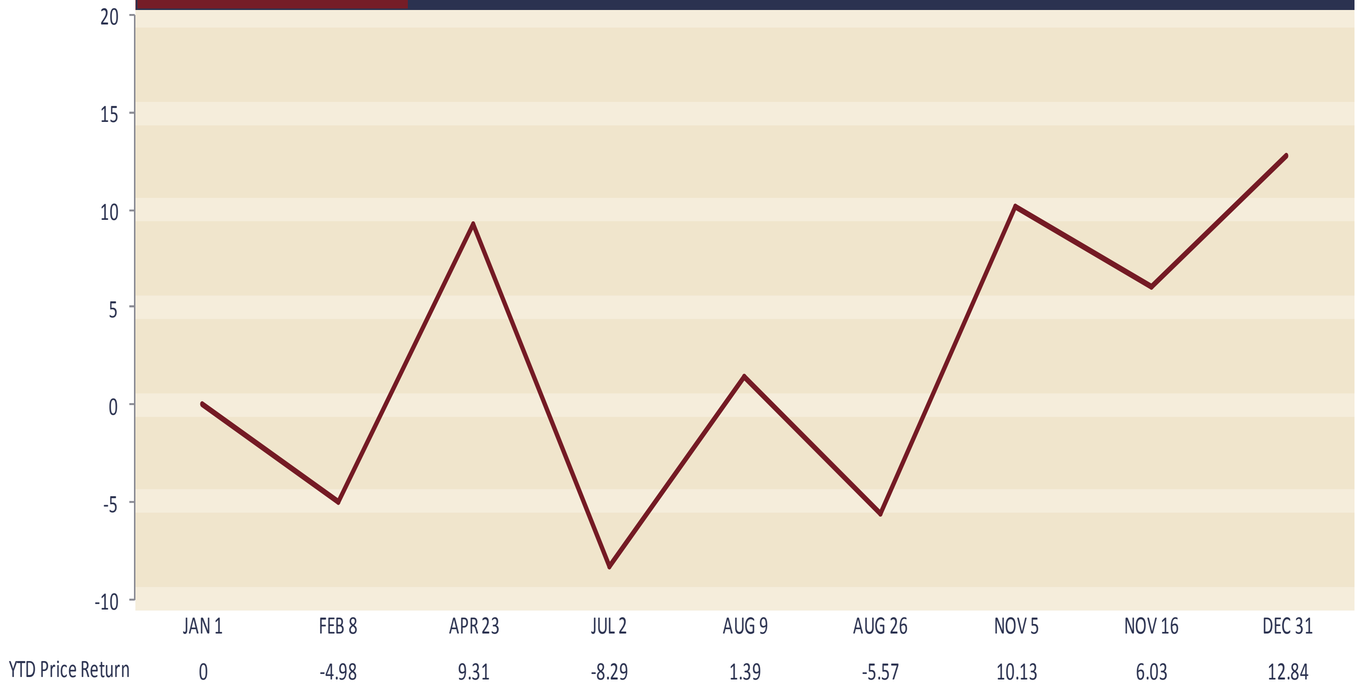
While the economy has improved, it would not surprise us if we experienced a pullback in the equity markets at some point this year. The markets have moved up very strongly and valuations in some areas are beginning to look high. We only have to look at the past year to see how quickly markets can change. You can see the amount of volatility we experienced last year in the graph opposite this page. While we aren't anticipating the same degree of volatility this year, we do anticipate that investors may be forgetting some challenging issues such as the poor balance sheets of developed countries and high unemployment and rising inflation in emerging countries. When this awareness sets in, the market may move lower to account for these issues.

Major Indices	Returns †						Risk †			
	4Q 2010	2010	1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year
Barclays Agg Bond Index	-1.30%	6.54%	6.54%	5.90%	5.80%	5.84%	2.91%	4.23%	3.65%	3.81%
Barclays Muni Bond Index	-4.17%	2.38%	2.38%	4.08%	4.09%	4.83%	4.37%	6.35%	5.09%	4.64%
Dow Jones Industrial Average	8.04%	14.06%	14.06%	-1.61%	4.31%	3.15%	17.16%	20.14%	16.37%	15.71%
S&P 500 Index	10.76%	15.06%	15.06%	-2.86%	2.29%	1.41%	19.26%	22.16%	17.82%	16.38%
Russell 2000 Small Cap Index	16.25%	26.85%	26.85%	2.22%	4.47%	6.33%	24.26%	28.09%	23.11%	21.14%
MSCI EAFE (Foreign) Index	6.61%	7.75%	7.75%	-7.02%	2.46%	3.50%	23.00%	26.61%	21.55%	18.63%
MSCI Emerging Mrkts Index	7.34%	18.88%	18.88%	-0.32%	12.78%	15.89%	21.08%	33.04%	28.13%	24.77%
NASDAQ Composite Index	12.32%	18.02%	18.02%	0.94%	4.66%	1.51%	23.15%	25.54%	21.08%	23.99%
DJ Wilshire REIT Index	7.45%	28.07%	28.07%	0.01%	2.32%	10.42%	20.46%	41.49%	33.96%	26.05%
DJ/UBS Commodity Index	15.79%	16.83%	16.83%	-3.67%	1.18%	5.84%	19.24%	24.84%	20.98%	17.68%
Goldman Sachs Commodity Index	13.41%	9.03%	9.03%	-12.84%	-5.70%	1.77%	23.32%	31.90%	27.69%	25.09%

† 1, 3, 5 and 10 year return &risk numbers are as of 12/31/2010. Risk, the standard deviation, is a statistical measure of volatility of a portfolio's return around its mean.

Past performance is no guarantee of future results. Source Morningstar Advisor Workstation

2010 S&P 500 Exchange Traded Fund (SPY) Volatility (Source: E-Trade Charts)



"The volatility of volatility has never been higher."
Andrew W. Lo, PhD (Chairman, Chief Investment Investment Strategist & Co-Portfolio Manager Alpha Simplex Group, LLC)

Interest Rates & Fixed Income

The anticipated correction in the bond markets began during the past quarter, producing losses in major bond indexes. The Barclays U.S. Aggregate Bond Index moved down 1.3% and the Barclays Municipal Bond market lost 4.17%. The Municipal Bond market loss appeared to be highly influenced more by headlines than fundamentals. While there is no doubt that our Municipal governments have challenges ahead of them, the market began pricing in significantly higher default rates than are likely to occur. One key source of the bad publicity came from a popular analyst, Meredith Whitney, providing projections calling for large defaults in the municipal space. While many municipalities face significant pension deficits and other financial issues, in most cases the issues appear to be resolvable. The average municipal's debt payments are below 10% of their annual payments and defaults have actually been going down as the economy has continued to improve. We continue to add to this municipal bond space as they provide a good risk/return dynamic. These municipal bond mutual funds currently provide 5-7% yields and the holdings are in some cases priced significantly below par.

We have also continued to monitor the interest rate risk in our portfolios and have continued the move to less interest-rate-sensitive investments while predominately increasing yields.

Key Rates				
	Prime Rate	3.25%	10 YR Treasury Yield	3.56%
	1 YR CD Rate	0.91%	30 YR Fixed Mortgage Rate	4.99%

As of February 8, 2011 *Source: Bloomberg.com*

COMMODITIES, REAL ESTATE & ALTERNATIVE STRATEGIES

Commodities produced high returns as the Morningstar long-only commodity index rallied 18.7% for the quarter. The Morningstar Agriculture index rose 26.7%, and the Morningstar Energy Index moved up 10.4%. These areas make up a significant part of the Consumer Price Index (CPI) and everyday prices that the average consumer must pay for food and gas. There is a concern that if prices continue to rise at this fast pace, the economy may begin to lose some of its current momentum.

While rising food and energy prices affect everyone, consumers from emerging countries are especially affected as these costs represent a higher percentage of their income than consumers in developed countries. Many of the emerging countries' governments have been attempting to slow the inflation rate through tighter monetary policies. Since these same countries have been big buyers of commodities, we could see a slowing demand. Given these dynamics, we believe that many of the commodities appear to be overvalued in the short term. We continue to invest in commodities but have lowered our allocation.

We are currently considering an alternative investment strategy referred to as managed futures. This is a strategy we have used in some of our client's portfolios for over ten years, although in the past it was less available to the average investor. However over the last year more accessible options have become available. The strategy has historically met the requirement of an alternative strategy due to its lack of correlation to the equity and bond markets. The managed futures fund is a pool of investment dollars that is managed by one or more professional money managers who trade in the futures and currency markets. The funds managers have the ability to establish either long or short positions in a targeted market sector. The trades tend to have shorter time frames as these markets can change rapidly for short-term financial, environmental, and even political reasons. The attractive aspect of these investments is that they can perform in most any type of market condition. The fund managers we have used have excellent long-term track records that are similar to long-term equity returns. Of course this is no guarantee that they will perform similarly going forward.