



2011 Perspective – Outlook and Risks

Pawleys Investment Advisors, LLC
invest right, live right™

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2011 Perspective - Outlook and Risks

- The Economic Landscape
- The Market Landscape
- Themes and Strategies
- Key Potential Risks
- *invest right, live right™*

The Economic Landscape

- US Recovery
- Employment
- US Deficit
- Global Outlook

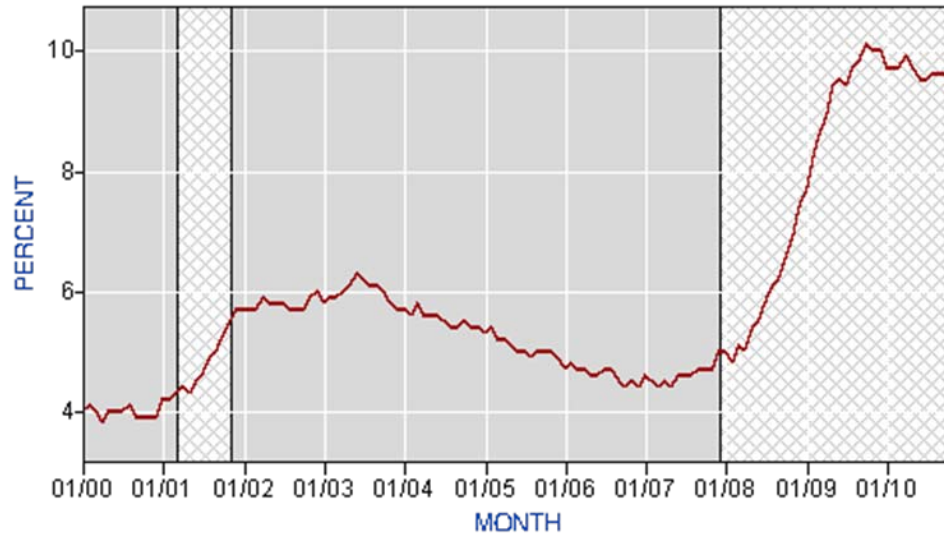
The US Economy is Expanding



Real GDP growth is measured at seasonally adjusted annual rates.
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Still Waiting for Growth in Permanent Employment

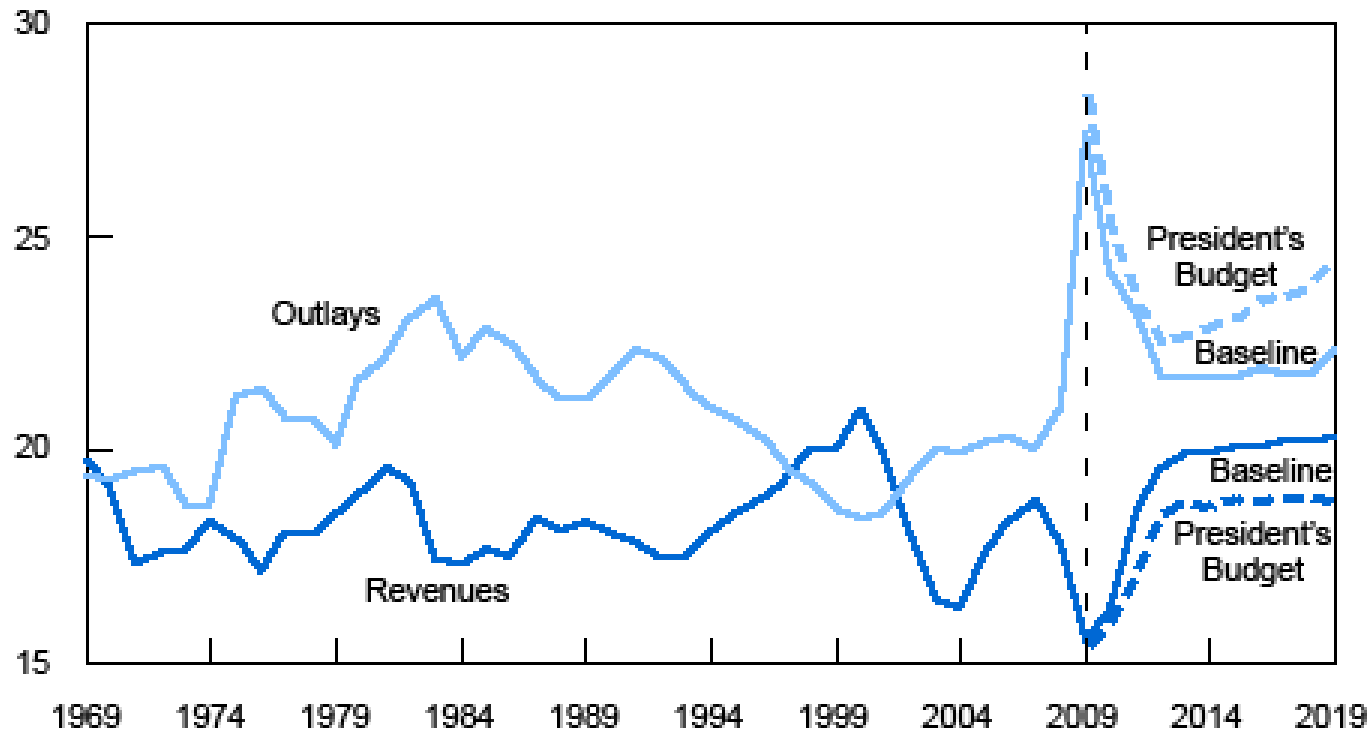
Unemployment rate (seasonally adjusted)



Note: Cross-hatched areas represents recessions.

Source: Bureau of Labor Statistics, Current Population Survey

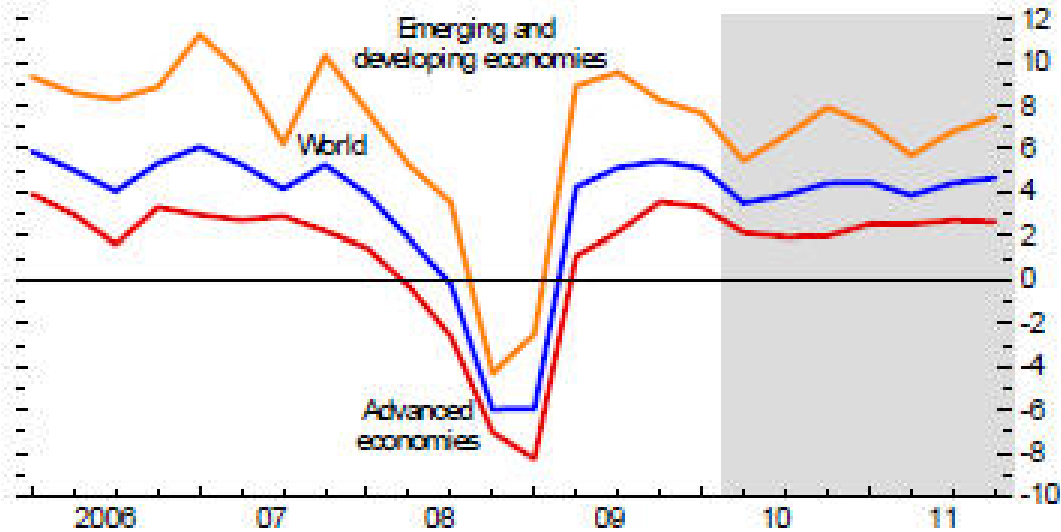
Total Revenues and Outlays and Under the President's Budget (Percentage of GDP)



Source: Congressional Budget Office

Strong Growth Predictions for Many Emerging and Developing Countries

Figure 1. Global GDP Growth
(Percent; quarter-over-quarter, annualized)

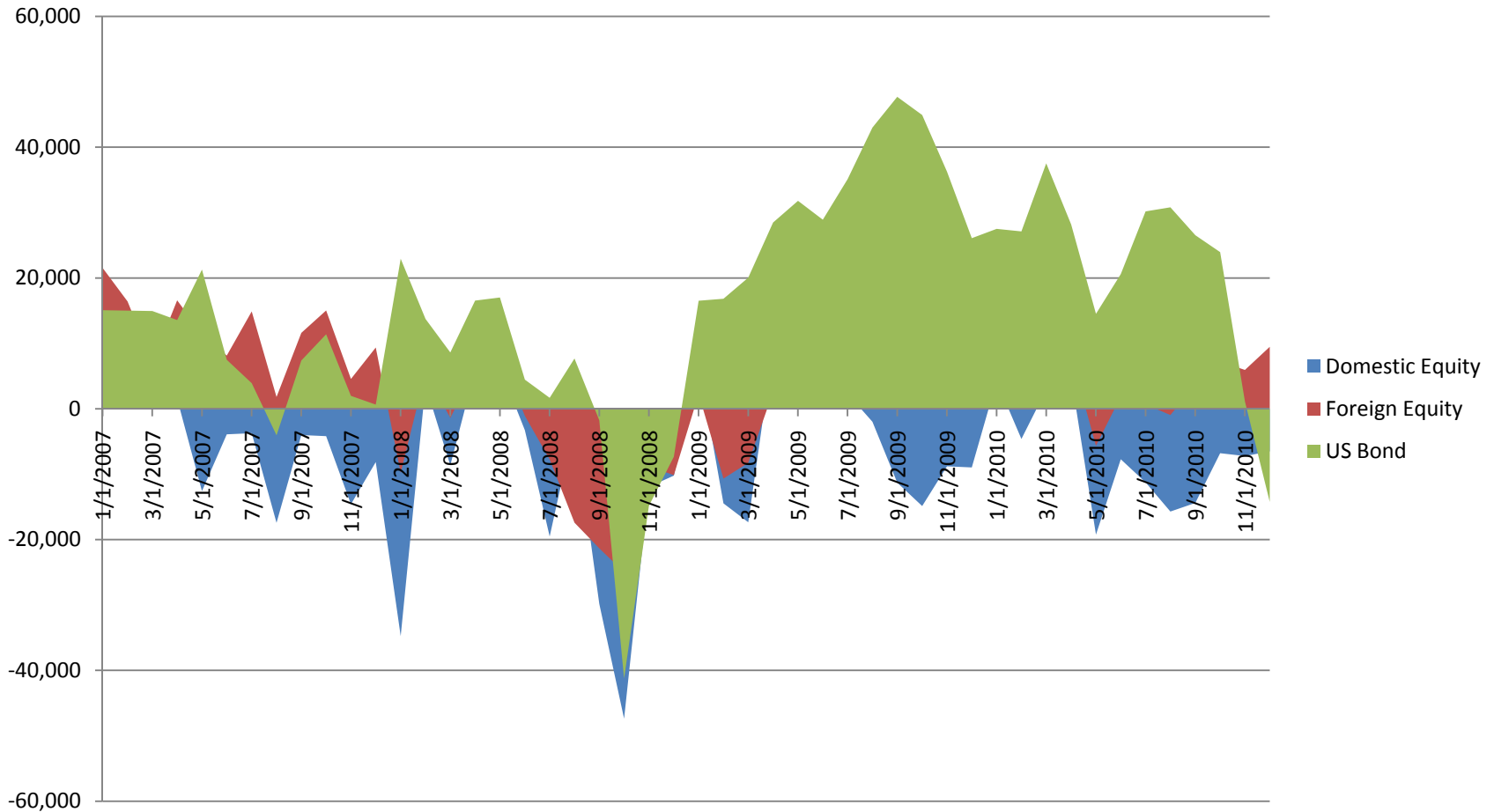


Source: IMF staff estimates.

The Market Landscape

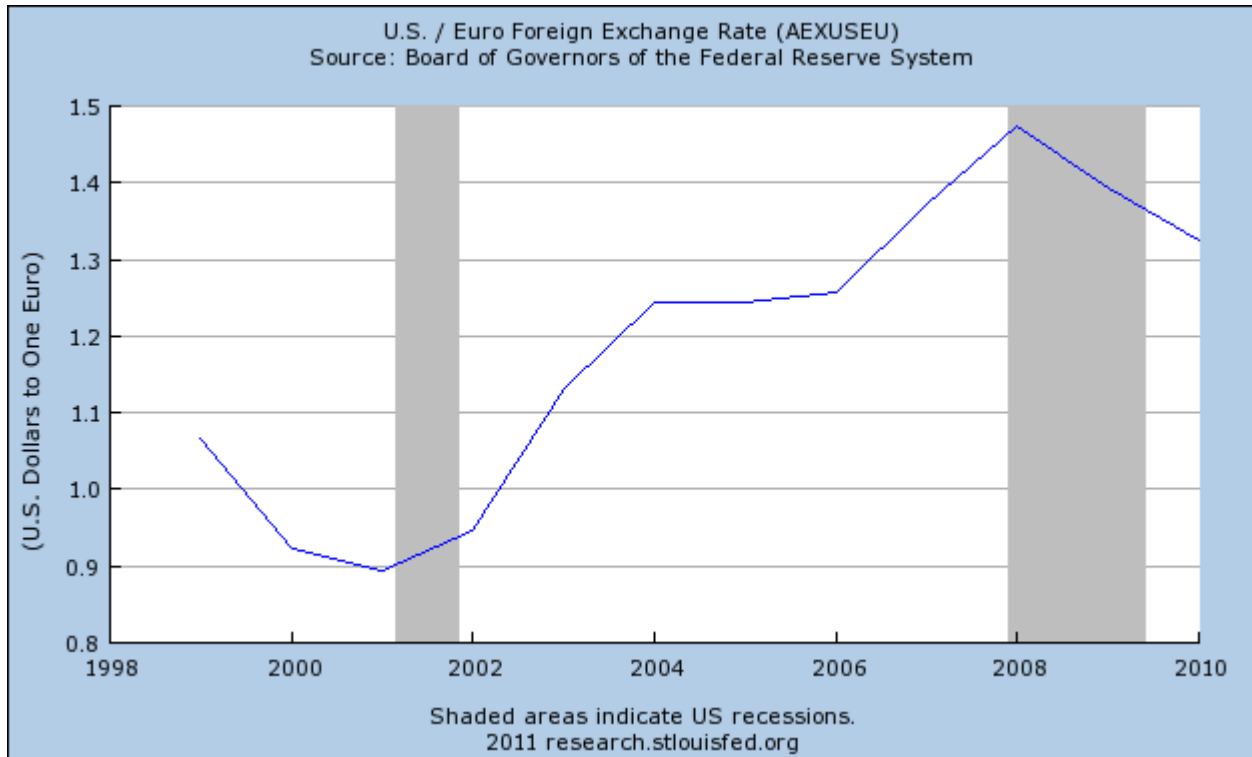
- US Debt and Equity Markets
- The Dollar
- Foreign and Emerging Markets

Mutual Fund Flows in Millions Show Late 2010 Reversal from Fixed Income into Foreign Equity



Source: Investment Company Institute

Weak Relative Dollar



Foreign and Emerging Market Opportunity

Emerging Markets Standard (Price) as of Dec 31, 2010

MSCI Index	Last	Day	MTD	3MTD	YTD	Annualized Historical			
						1 Yr	3 Yr	5 Yr	10 Yr
CHINA	66.312	0.79%	-0.72%	0.67%	2.32%	2.32%	-7.91%	17.80%	11.35%
INDIA	559.416	1.10%	7.55%	1.99%	19.41%	19.41%	-5.78%	16.36%	17.19%
INDONESIA	832.603	-0.17%	3.51%	-1.09%	31.19%	31.19%	7.11%	25.74%	26.74%
KOREA	409.853	0.00%	11.08%	12.81%	25.29%	25.29%	-2.15%	6.24%	17.95%
MALAYSIA	452.889	0.00%	5.22%	4.40%	32.51%	32.51%	3.49%	15.87%	10.92%
PHILIPPINES	350.507	0.00%	9.01%	-3.80%	30.29%	30.29%	-1.19%	15.65%	9.10%
TAIWAN	312.553	0.63%	12.47%	17.36%	18.32%	18.32%	2.06%	5.45%	5.01%
THAILAND	340.487	0.00%	3.55%	5.75%	50.81%	50.81%	8.39%	13.89%	19.17%
EM ASIA	468.192	0.50%	6.25%	6.87%	16.57%	16.57%	-3.05%	10.35%	12.54%
EM FAR EAST	405.214	0.41%	6.04%	7.68%	16.12%	16.12%	-2.49%	9.59%	12.22%
BRAZIL	3,761.353	0.24%	6.62%	2.62%	3.78%	3.78%	-0.92%	19.10%	17.29%
CHILE	2,909.586	0.00%	2.96%	5.51%	41.82%	41.82%	17.30%	19.77%	17.01%
COLOMBIA	1,112.623	0.05%	2.82%	-5.64%	40.75%	40.75%	21.57%	17.55%	38.73%
MEXICO	6,473.418	1.18%	5.71%	16.25%	25.99%	25.99%	2.61%	10.42%	16.02%
PERU	1,817.380	0.34%	3.98%	16.62%	49.24%	49.24%	13.33%	32.72%	30.69%
EM LATIN AMERICA	4,613.650	0.40%	5.96%	5.29%	12.07%	12.07%	1.59%	16.50%	17.55%
CZECH REPUBLIC	504.261	1.35%	8.15%	-3.46%	-7.40%	-7.40%	-15.27%	3.65%	20.23%
HUNGARY	663.169	1.58%	7.97%	-9.39%	-10.70%	-10.70%	-16.46%	-2.82%	11.00%
POLAND	1,016.390	0.62%	10.35%	3.75%	12.63%	12.63%	-12.19%	2.37%	7.37%
RUSSIA	931.990	0.16%	11.10%	16.48%	17.18%	17.18%	-15.35%	2.76%	19.63%
RUSSIA ADR/GDR *	563.230	-0.45%	11.63%	16.45%	13.95%	13.95%	N/A	N/A	N/A
TURKEY	625.073	-0.58%	-3.04%	-7.87%	18.36%	18.36%	-5.94%	5.14%	9.70%
EM EUROPE & MIDDLE EAST	450.052	0.21%	8.44%	8.40%	15.80%	15.80%	-10.10%	3.02%	9.94%
EM EUROPE	529.412	0.21%	8.44%	8.40%	14.51%	14.51%	-13.33%	2.13%	12.76%
EM EASTERN EUROPE	237.441	0.35%	10.71%	11.85%	13.72%	13.72%	-14.71%	1.96%	15.43%
EGYPT	859.879	0.00%	6.57%	4.92%	9.47%	9.47%	-12.51%	3.55%	20.28%
MOROCCO	461.261	0.43%	6.87%	4.01%	10.84%	10.84%	-3.99%	15.70%	10.63%
SOUTH AFRICA	611.621	1.04%	14.75%	12.57%	30.70%	30.70%	6.36%	10.11%	14.52%
EM (EMERGING MARKETS)	1,151.385	0.49%	7.02%	7.05%	16.36%	16.36%	-2.58%	10.26%	13.18%

Source: MSCI

Themes and Strategies

- Asset Allocation
- Sectors
- Extension of the Bush Tax Cuts
- Municipal Markets

Asset Allocation

- Fundamental focus on diversification
- Stick with quality and a long-term view
- Tactical underweight of cash and US dollar-denominated debt, favor foreign bonds
- Slight overweight towards growth and international equity
- Use covered call options to generate income, protective puts if you are skittish

Sectors

- Rebalancing to defined sector targets
- Underweight top performing sectors
 - Consumer Discretionary
 - Materials
- Overweight under performing sectors
 - Financials
 - Healthcare

Extension of the Bush Tax Cuts

- \$5 million estate exemption reinstated
- Qualified dividends and capital gains tax rate = 15%, highest marginal tax rate = 35% thru 2012
- Gifting strategies, Grantor Trusts
- Convert Traditional to Roth IRA assets
- Favor municipal bonds for tax-free income, avoid/underweight revenue issues

AAA rated GO 10-year Muni Yields higher, still attractive



Source: Bloomberg data through 1/5/2011

Key Potential Risks

- Lack of congressional discipline in resolving long-term budget and debt issues
- Global recovery headwinds resulting from deficits, contagion etc.
- Economic and social growing pains of emerging markets
- Emotional response to good markets – the return of irrational exuberance

invest right, live rightTM

- Review budget & risk tolerance, organize, and be prepared for unexpected stressors
- Stay healthy, energetic and positive
- Surround yourself with great people
- Have fun!



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