

Frontier Wealth Management

Throughout another turbulent quarter, the market continued to find way to keep investors bewildered and guessing. Yes, the Dow Jones Industrial Average did finish up 0.8% for the past three months, but with increased volatility similar to the last three quarters. With equities, commodities, and currencies falling in response to macro events, investors continue to shift between optimism and dejection. These shifts are to be expected in light of Europe's debt troubles (Greece bailout packages), uncertain global economic growth indicators, the approaching end of the Federal Reserve's \$600 billion bond-purchasing program (QE 2 which concluded last Thursday) and the lingering impact on Japan's manufacturing and supply due to the tsunami.

In addition to global macro problems, we have seen an anemic response from the financial sectors. Specifically, trading volumes on the New York Stock Exchange and NASDAQ were down more than 30% quarter over quarter which enhanced the perceived volatility in the market.

The markets staged an impressive rally the last week of the quarter to see the Dow Jones close with a 5.4% weekly gain, largely assisted by a 1.4% surge on July 1st. Each of Wall Street's major benchmark indexes finished the week with its highest percentage gain since the week ended July 17, 2009. The catalyst for these gains was the Institute for Supply Management's index of manufacturing activity which climbed to 55.3% in June from 53.5% the prior month. The value had fallen sharply in May as a result of a shortage in automobile parts manufactured in Japan. This report, combined with a factory activity report in the Chicago area, suggests that manufacturing has indeed picked up. Sounds good, right? Not so fast.

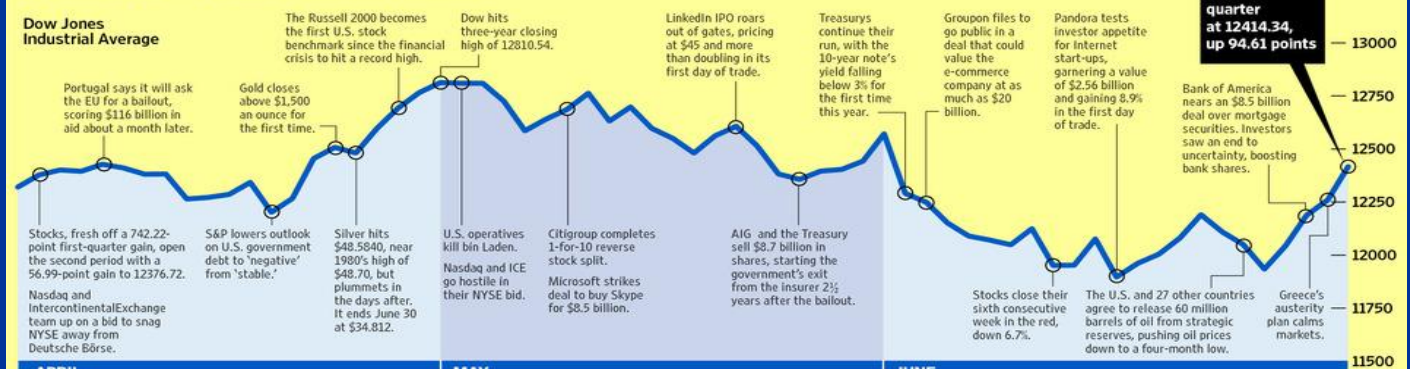
Digging deeper, consumer sentiment declined in June to its worst level in eight months on concerns about employment and income as well as faltering expectations about the overall state of our US economy. Low consumer sentiment will result in fewer purchases which will increase supply and eventually counteract the strong manufacturing numbers previously discussed.

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"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."

- Warren Buffett

Dow Rewind | A period of peaks and pullbacks



Source: WSJ Market Data Group



Frontier's Summer Interns

We would like to introduce Joey Stromberg and Patrick Hayes, both of whom will be working as interns at Frontier over the summer. Joey is a senior at the University of Kansas, studying Finance. Patrick is also a senior at the University of Kansas, studying business administration and marketing. They joined Frontier because of the knowledge employees here have to offer and to gain exposure to the industry.

Top 20 in Their Twenties

We are proud to announce that our Director of Operations, Jack Hannah, was listed as one of Ingram Magazine's Top 20 in their Twenties. For the full article, please see the June 2011 edition or visit www.ingramonline.com.

Frontier's Hot Topic

Amid continued uncertainty driven by global economic and political woes, investor confidence remains shaken. For many investors, the financial stress of the past three years has shifted their priorities towards principal protection and capital preservation, resulting in an increasing share of their returns being derived from income producing securities.

Historically, such an approach would help investors sleep easy, but recent debt-ceiling squabbles in Washington have heightened anxieties. Some investors have even begun to question the reliability and safety of domestic bonds, wondering if a traditional safe haven for investments now poses increased risks.

Certainly, over the long run, the nation's deficit issues must be resolved. However, it is important to realize that a serious threat of default is not on the horizon, and US government fixed income securities remain by far the primary and popular instruments for addressing liquidity, as well as a vast majority of collateral in the global economic world.

By contrast, the developed international bond market alternatives are quite bleak: bailouts have caused Greece, Ireland, and Spain to lose domestic policy independence. Portugal is lurking behind and may soon follow suit. These bailout packages have already eroded confidence in the European bond market, driving up the rates of new issues to 5-7% while causing their ratings to plummet below B Grade. In an effort to balance their fiscal budgets more than half of the European countries have raised rates on Value-added Tax and income tax while decreasing pension obligations. All told, the largest developed economies outside of the United States are far from flourishing.

What about emerging market bonds? Their primary function has been to increase the overall expected return of a portfolio due to their more speculative nature, but certainly not as a primary tool for portfolio stability and income generation. While the "China threat" remains an intriguing topic for cocktail hour, the reality is that the Chinese are presently far too dependent on the US economy to make any bold power plays that might impact US debt refinancing.

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New Faces at Frontier

Since our last newsletter, Frontier has hired two additional employees. With these two positions, we are excited to begin dedicating even more time to you, personalizing Frontier even further and expanding our business. We would like to formally introduce Elizabeth Orr and Jennifer Hummel.

Elizabeth's role will be as Frontier's office manager and she will greet you upon your arrival to the office. Elizabeth was born and raised in North Carolina and is a recent Kansas City resident. She previously worked for Discovery Land Company in Florida as their office manager. Elizabeth is recently married and is enjoying getting to know Kansas City.

Jennifer grew up in the Kansas City suburbs and comes to us from another local advisory firm. She will be our Director of Client Services and will be able to assist you in setting appointments, account requests, etc. Jennifer has a four year old daughter; she enjoys spending time with her and running.

Frontier Website

A quick note to everyone: the Frontier website now has a new look to it. We want to give our clients and others a better glimpse into who we are and what we do. We are pleased with the turnout. Please familiarize yourself with the updated website at www.frontierwealth.com.



Hot Topic: Continued

How about “fleeing” to gold? Perhaps in part due to its recent run up, it remains a widely believed myth that gold is a “safe haven” among available investment options. While it may have a deserving place as a relatively small portion of a diversified portfolio, it is important to remember that gold is a commodity – and like all other commodities it displays risk characteristics that should preclude it from being a core holding. To illustrate, over the last 30 years gold has yielded a return smaller than the 1-month Treasury Bill, but, at the same time, it has displayed risk (as measured by volatility) higher than most other significant market segments, including US Equities, International Developed Markets, High Yield and, yes, even Real Estate!

What Does All This Mean For Frontier Clients?

While it's useful to understand the aforementioned landscape, it is important to realize that these risks can be significantly minimized for investors who hold diversified portfolios that spread across multiple fixed income and equity market segments that cover *both* geographic and asset class risks. Our goal is to maintain smartly distributed portfolios that neutralize the effect of any slump in any particular section of the world economy. Attempting to time the market by speculating on which market segment will perform better than the rest has been proven again and again to be a failed strategy over the long term. Instead, in order to fulfill your investment objectives and expedite the realization of your financial goals, it is important to take a disciplined approach that focuses on well-diversified portfolios that are designed not only to withstand market turmoil but to also produce consistent returns over time.