



FRONTIER

WEALTH MANAGEMENT

Quarterly Newsletter

October 2011

Investment Highlights – Q3 2011

In line with our expectations for a global economic slowdown and continued volatility, US equity markets sustained a dismal third quarter with the Dow Jones Industrial Average posting a 12% drop while the S&P 500 Index lost 14%, their worst percentage declines since the first quarter of 2009. The last three months were marked by anxiety over the European sovereign-debt crisis, a U.S. economy flirting with a double-dip recession, and signs that even fast-growing economies such as China are hitting the brakes. Even some so-called “safe havens” failed to perform, with gold and the Swiss franc tumbling toward the end of the quarter. Many investments, from U.S. stocks to crude oil, had their worst three-month period since the dark days following the Lehman Brothers collapse in 2008. For some investors, the period was reminiscent of times marked by worries over the health of our banking system; only this time the focus has been on Europe. Financial stocks were among the hardest hit during the quarter, with many banks losing more than 25% of their market value. Furthermore, Wall Street economic strategists have reduced their forecasts for growth and company earnings, driving investors to lower expectations for the equity markets during the fourth quarter.

Meanwhile, economic data from China, the key engine for the world economy, is increasingly bleak. Last week’s numbers indicated the country’s manufacturing sector may have shrunk slightly in September. China’s stock market, copper prices and crude oil (all leading indicators for the world’s economy) have tumbled as well.

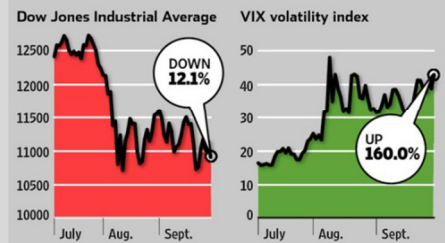
This stream of worrisome events has fueled more pessimism among investors. Economic data in July showed the U.S. recovery was slowing, and political squabbles in the name of self-serving interests in Washington triggered fears of an unprecedented default by the country. Then, Standard & Poor’s downgraded the U.S. credit rating, sparking further negativity in investors’ sentiment coupled with panic-mode sell-offs in the equity markets. At the same time, Europe’s debt troubles deepened while the most recent troubling signs about China raised new doubts about future demand for commodities and other goods.

There are, however, positives amidst the turmoil. Corporate earnings have held up well, and most investors are hoping for more of the same, as companies are preparing to release their third-quarter reports in the coming weeks as well as give their outlook on the future of our economy.

Stay hungry. Stay foolish.

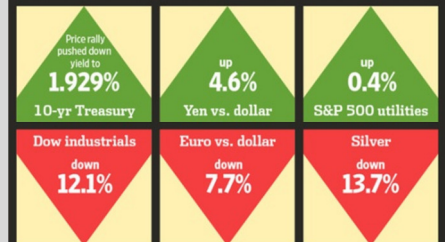
- Steve Jobs, 2005

Stocks Down, Anxiety Up



Source: WSJ Market Data Group

Third quarter performance



Source: WSJ Market Data Group

Investor Concerns over S&P Downgrade Fear of Greek Default

There have been two primary catalysts for investor concerns. The first, the S&P downgrade of U.S. credit rating from AAA to AA+, occurred after policymakers in Washington waited until the last moments of the deadline to strike an accord on a debt ceiling and government spending plan. Fortunately, the agreement did not result in major tax increases, but the subsequent downgrade by Standard & Poor's likely exacerbated hefty sell-offs in equity markets worldwide.

However, as we anticipated, this had no ill effects on US Fixed Income. None of the other rating agencies followed with a downgrade of its own. In fact, Moody's and Fitch affirmed their AAA rating on August 2 when the debt-ceiling bill was signed. Moreover, governments of countries with the leading economies in both Asia and Europe expressed confidence in the US debt trustworthiness during the weekend immediately after the S&P downgrade. Japan (second-largest buyer of US debt) and the United Kingdom (third-largest holder of US debt) each made public statements to this effect last Sunday.

It is essential for investors to understand that there is tremendous pressure on the banking sector in Asia (which accounts for about half of foreign-owned U.S. debt) to hold on to liquid assets, and there is nothing more liquid than the Treasury market. On top of this, Treasuries have been doing well, and the Chinese are not holding on to distressed assets.

The second notable catalyst for worries among investors during the quarter was the increased prospect of a potential government default in Greece after Germany openly declared they were about to give up on further bailout tranches. Several French banks have already lost more than half of their market capitalization this summer, having been the largest investors in Greek bonds (along with the German banks). However, no notable effects outside the European banking industry are anticipated. It is worth mentioning that the maximum exposure to European bonds in our clients' portfolios amounts to less than 3%, thus alleviating any concerns of negative consequences on future portfolio performance.

These events only reaffirmed US Fixed Income as the most attractive "safe haven" in the world, as U.S. Treasury debt had its best quarter since the first quarter of 2008. Intermediate-term treasuries (7-10 year maturity) went up by more than 11% while treasuries maturing in 20 years or more returned 29% during the quarter. All this is a good reassurance for our clients as the multiple fixed income asset classes play a significant role in the Strategic-Asset-Allocation-driven portfolios as well as the Stable Return Model, helping to offset exposure to the equity markets.

In addition to the S&P downgrade and Greek crisis, persistent high unemployment, signs of global economic slowdown signaled by China, and the fears of low efficiency on a rushed second stimulus package continue to weigh on investors and may cause more short-term sell-offs. However, short-term fluctuations in certain market segments should not be of concern since our proven philosophy is based on long-term discipline and well-diversified portfolios designed to withstand short term fluctuations in any particular asset class.

Operation Twist: Here Comes the Fed, Again

Speaking of government intervention, after being announced in late September by the Fed, "Operation Twist" raised quite a few eyebrows even within the Fed, where three regional bank presidents (Dallas, Minneapolis and Philadelphia) dissented against the decision. The program is designed to lower yields on long-term bonds while keeping short-term rates unchanged, thus supposedly giving consumers and companies additional incentives to spend and borrow. A big hope is to also stimulate the real estate market in the hopes of increased mortgage borrowing.

However, with the interest rates already being at record lows since 2008, this move is controversial to say the least. Not only are most economic experts skeptical about any possible efficiency, but the Fed could possibly lose money on longer-term Treasuries because inflation could outpace the interest rate over time, cutting into bond returns.





Operation Twist: Continued

This latest round of systemic interventions only highlights the ongoing temptation for governments around the world to intervene in unpredictable ways and for reasons that are more political than economic. These circumstances should only reinforce the notion that non-market forces may contribute to the hot asset class of today becoming the dog of tomorrow, and vice-versa. Speculators beware.

Frontier clients, on the other hand, should take comfort in the fact that our strategy does not rely on a crystal ball that predicts which asset classes might be the short term winners or losers in an increasingly unpredictable economic and political environment. We will, once again, reiterate our conviction that the safest path to achieving long term investment goals comes from maintaining efficient, diversified portfolios. Portfolios are optimally allocated in all investment asset classes (including both domestic and international Fixed Income, Equities, and Commodities), as well as tailored to individual investment objectives, time horizon and risk tolerance. By sticking to this systematic approach over the long term, we can avoid falling prey

to short term fads and panics that frequently cause even the most experienced investors to be ruthlessly whipsawed by volatile markets.



Important Year-End Planning Deadlines

November and December always seem to be a busy time of year, but it is important to stay on top of your financial planning deadlines. Frontier advisors will be in touch, but, we still encourage clients to contact us if you have any questions so that we can ensure your financial success. As the end of 2011 draws near, here are a few things to consider prior to December 31st:

- Charitable/Annual Giving - All gifts, charitable or not, of stock/mutual funds/cash from Schwab accounts require updated signatures on a yearly basis. If you are interested in giving, please contact us so that we may figure out the best strategy and get any required paperwork to you as soon as possible. For charitable gifts, we encourage you to make certain that the charity of your choice is approved through the IRS, so that your deduction will count towards your tax return.
- Required Minimum Distributions – If you are 70.5 or older and have a Qualified Retirement Account, you are required to take a minimum distribution every year. If you are the account owner of an Inherited IRA/Roth, your CPA will be able to tell you your minimum distribution requirement. These distributions must be complete by December 31st. If you have accounts with these requirements, Frontier will be in touch to ensure the distribution is complete.
- Tax Loss Harvesting – We will review your non-qualified, after-tax brokerage accounts and determine if you should sell positions with losses to capture those losses and offset any gains in those accounts.
- 529 Contributions – To qualify for the state tax deduction in 2011, your 529 Contributions must be made payable to the 529 Plan and be postmarked by December 31st.

Ingram's Magazine Article

Finding the Exit when You're Speeding Past 65

We are proud to announce that one of our associates, Clay Hartman, had an article published in Ingram's Magazine. For the full article, please see the August edition or visit www.ingramonline.com. Clay is also proud to announce that he had his first hole in one on the golf course last week!