



# PERSPECTIVES

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**News, noise, interpretation, and mendacity;** investors get it everyday. Recently there has been more than ever. It sometimes makes it difficult to track the real underlying trends. At times we just have to go on a little bit of faith that trends in place will prevail through this fog of confusion. Those trends have been a recovering economy here and abroad, surprising profitability growth stemming from productivity and revenue gains, and a healing of financial markets.

However, what a fog it has been. Recently investors are confronted with trying to assess the impact on these trends by turmoil in parts of the Middle East, the natural disasters in Japan including the nuclear plant troubles, a return of European debt concerns, as well as constant change in the business world.

The risk emanating from the turmoil in the Middle East is that oil supplies could be disrupted and prices could be bid up to a point where they do serious harm to economic recovery everywhere. So far this looks to be unlikely, but prices have already moved higher building in greater risk.

It is inevitable that consumers here and around the world will have to adjust to higher energy costs. If these occur over a

reasonable period of time that adjustment can be smooth. Hopefully that will be the case, allowing technology and lifestyle adjustments, to mitigate the impact.

As for the natural disaster in Japan, this will in time be a major liquidity event. Tremendous money will be released from insurance companies' bond portfolios and spent to rebuild the damaged area. The Japanese government will also spend what it has to in order to aid in the rebuilding. The scale of the rebuilding will create more demand for all manner of raw materials, heavy equipment, and a variety of services having a global impact.

Inflation is another concern creeping into the market. It affects long-term bond values and changes one's outlook as to value in the stock market and what kind of companies benefit and which ones might be hurt. Inflation is especially noticeable in fuel and food costs. Whether these increases lead to increases on a wider basis is still problematic. Our best guess is that there is still plenty of excess supply for most goods and services, that inflation may break out here and there, but be offset by declines elsewhere. How does all this combine to impact our investing environment; read the next section.

## Forecast

### *Economy*

In spite of the many cross currents in the economy, it appears that the U.S. GDP should continue to grow this year at a modestly faster pace than last year. The best estimate is a rate of growth of around 3 to 3½%. Job growth, after lagging badly in the initial stages of recovery, now seems to be accelerating.

International growth seems to be accelerating too. This obviously helps reinforce growth here. We can easily see some of that growth by observing commodity prices. The world seems to need more of so many items from copper and oil to cotton and a broad range of food items. These prices have been firm or are increasing.

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## Talk With Us

It is said that only fools make predictions. However, it is unavoidable in investing. We have a process to make these assessments. In our industry's parlance it is called our top-down view. It starts with "the big picture" and works down to sectors and industries. It is never static, but continually reviewed.

As information comes in, our investment committee constantly compares the reality that emerges with what has been predicted. The committee has to make judgments as to what information is significant and what might be noise, or extraneous to our basic assumptions. When confronted with information contrary to our expectations, we have to alter our assumptions. We then have to analyze how our investment posture has to change to accommodate the changes in outlook.

Part of our investment process is to have internal hedges built in. This allows us to be wrong, but

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### Notice

Riverplace Capital offers our clients **free** financial planning. We believe strongly in the value of planning as it helps document goals and objectives, and provides a benchmark to measure progress. Planning helps us provide better, more targeted financial service to you. If you would like a financial plan, contact your portfolio manager at (800) 391-1212

### MAJOR INDICES AS OF 3/31/2011

Large Cap Stocks (S&P 500)	5.4%
Dow Jones Industrial Average	6.4%
Mid Cap Stocks (S&P 400)	9.0%
NASDAQ Composite	4.8%
Small Cap Stocks (Russell 2000)	7.6%
MSCI EAFE	2.7%
Barclay Aggregated Credit Index	0.94%
Inflation	1.0%

(EQUITY INDICES ARE THREE-MONTH RETURNS EXCLUDING DIVIDENDS)



## Forecast *(continued)*

### *Equities*

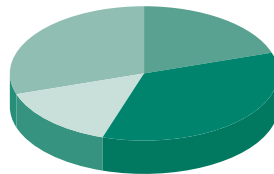
We have predicted that this year would provide good returns, but within a more volatile environment. Volatility has certainly returned, but so far has been reasonable and arguably light for the news background. One could easily argue that the recent setback should have been much more given the dramatic events in the Middle East and Japan. The reason it wasn't was that stocks are still cheap and they offer the most value when compared to other asset classes like cash, bonds, and real estate.

Riverplace Capital has been arguing for some time that stocks are not only the best asset, but about the only viable investment given the historically low interest rates and the dramatic oversupply in the real estate sector. We have expected this would draw more and more money back to equities and help prop up prices during downturns and drive prices higher over time; so far so good.

### *Fixed Income*

This sector is getting interesting! Interest rates have moved higher since the lows of last year. They are bound to move even higher as the recovery progresses. However, near term scares like the recent events in the Middle East and Japan, rallies this market as nervous investors seek safety (remember that yields fall as prices for bonds move higher).

Once the crisis atmosphere subsides, bond prices should begin to fall again and yields move higher. We expect rates for the ten-year Treasury bond to move above 4% this year. In fact a range of 4 to 4½% would not be alarming and be more reflective of the economy we have today.



## Investment Strategy

### *Equities*

Riverplace Capital remains invested in the economic recovery thesis. Our portfolio structure has a growth bias and is overweight in those areas that you would expect to do well as the economy continues to recover. Some of those sectors are industrials, technology, energy, and materials. As an offset to reduce risk we have also over weighted healthcare. Growth here is driven by demographics and is not as dependent upon the economy.

We continue to underemphasize those areas that depend upon robust consumer activity and/or businesses that are experiencing higher costs for their inputs. Again we want to avoid being on the wrong side of the commodity inflation that we are seeing.

### *Fixed Income*

During February, corporate bonds with relatively short maturities started trading with attractive yields. We have been waiting for this

for some time. We immediately began buying these bonds. When bond prices moved back up and their effective rates declined, we again backed off.

Bond prices moved higher in March in response to the various crises in the Middle East. Obviously some investors sought relative safety and bid up bond prices as they retreated from other investments. Riverplace Capital does not believe this fall in interest rates will last long and soon will begin climbing again. At appropriate levels, we will begin buying again.

### *Wealth Management*

Since last year when we reduced bond exposure, increased domestic equity exposure, and reduced international exposure, we have not made other changes. We have been pleased with the performance so far. These portfolios are positioned to benefit from the continuing recovery in the economy and are defensive with regard to higher interest rates.

## *Talk With Us cont'd*

not have to change everything. One example might be our view of energy today. Riverplace Capital feels that energy prices reflect increasingly tighter supply in the face of rising worldwide demand. However, there is the possibility that some of the rise might also be a response to increasing speculation. Therefore, we have not made an all or nothing bet on energy stocks. We watch our weightings and take some profits along the way. In the case of a swift correction in energy prices, it would not devastate our clients' investment portfolios.

Our constant vigilance and review of our assumptions help us avoid getting completely off track. We realize that most assumptions start out being somewhat off and get better with adjustment. We are humble in our approach. Furthermore, we state our assumptions in this publication. We invite discourse and other views in our never ending attempt to produce good investment results for you. We try our utmost to be guided by solid logic and not emotion. So if you believe that disciplined approach based upon careful and thoughtful analysis is for you then,

*Talk with Us.*

VISIT OUR WEBSITE AT [WWW.RIVERPLACECAPITAL.COM](http://WWW.RIVERPLACECAPITAL.COM)

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