SMITH & HOWARD
WEALTH MANAGEMENT
Your family's CFO.

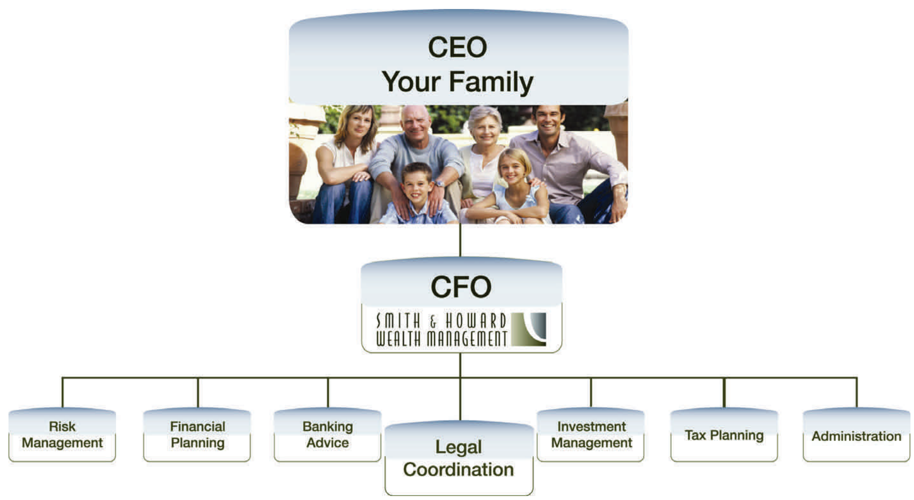
Second Quarter 2009

Your Family's CFO Report

A review of issues affecting your family's wealth

Visit our website, www.smithhowardwealth.com, to learn more about your family's CFO, and how we serve you.

With the stock market on a strong rebound, the second quarter of 2009 turned out to be a rewarding one for investors. However, the debate about the health of the economy and how quickly we will emerge from the global recession continues. In this issue of *Your Family's CFO Report*, we discuss legal coordination, the economy, prospects for inflation and our portfolio positions. Please call us anytime at 404-874-6244 if you have questions or would like to come in and meet with us.



Legal Coordination

As part of our services, Smith & Howard Wealth Management (SHWM) coordinates with your attorney regarding estate planning issues, which seem constantly in motion as new legislation is passed. For example, Congress is currently reviewing valuation discounts for Family Limited Partnerships as they relate to control issues.

The estate tax exemption is another example. The exemption was increased to $3.5 million per taxpayer from its 2008 level of $2 million. Under current federal estate tax law, however, the estate tax is scheduled for repeal in tax year 2010, but scheduled for reinstatement in 2011, with the exemption amount dropping back to $1 million. But hold on: the President and Congressional leaders have stated that they do *not* plan to repeal the estate tax in 2010 and that they expect Congress to take action on this new policy before the end of the year. Confused yet? There's more.

Gift taxes are another thing to be mindful of. The Federal gift tax applicable exclusion amount is currently $1 million. In addition to the federal tax, individual states impose their own estate, inheritance and/or gift tax. Whether your estate will be subject to state taxes depends on the size of your estate and the tax laws in effect at the time of your death.

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Inside this issue:

Economic Overview

As evidenced by rising unemployment, still falling housing prices, negative earnings growth and subpar Gross Domestic Product (GDP), the U.S. remained in recession during the second quarter of 2009. The National Bureau of Economic Research declared December 2007 as the official start of this recession, so at 19 months we are in the midst of the longest recession since the 1940s.

More specifically, the unemployment rate has about doubled over the past 18 months and now stands at 9.5%. Since the downturn began, that translates to a total of about 6.5 million lost jobs as companies downsize and adjust to a slowdown in demand. A federal program passed by Congress last year is providing 2.4 million people additional unemployment checks. The program extends benefits by 20 to 33 weeks, above and beyond the 26 weeks that states typically provide.

There are several smaller indicators that support the belief that the U.S. economy is on the way to recovery.

Housing has yet to stabilize. The latest Case Schiller monthly report of major metropolitan areas shows housing prices have fallen by 18% from year ago levels. Thankfully, new housing starts have fallen dramatically. This will help reduce inventory sooner rather than later and stabilize the situation.

Second quarter corporate earnings will start coming out soon and are expected to be poor. Earnings will probably decline about 30% from second quarter 2008. First quarter earnings were down a similarly large amount. We have now had a record string of seven consecutive quarters of falling year-over-year earnings.

Second quarter GDP is expected to fall about 1.5% at an annual rate. Going back to the fourth quarter of 2007, that will mean that GDP has been negative for five of the last seven quarters.

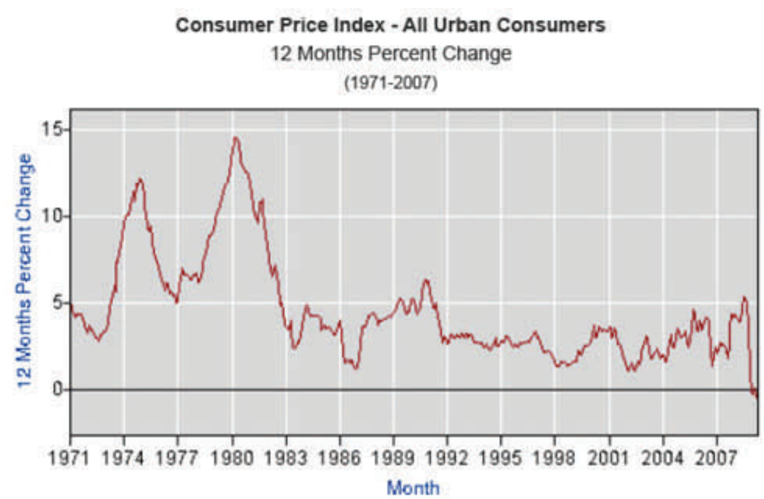
So why, amidst this backdrop of a downturn in significant economic indicators, is the stock market performing better, and why has consumer and investor sentiment improved from first quarter levels?

The answer is that a worse case scenario of economic depression accompanied by deflation, a worry just a few months ago, is now off the table. In fact, there is now concern about inflation, which we will discuss in a moment. In addition, the stock market typically rebounds far in advance of an economic recovery. So the stock market seems to be anticipating an end to the recession by year end.

Finally, there are several smaller indicators that support the belief that the U.S. economy is on the way to recovery. New orders and shipments have moved up. Credit spreads have narrowed which has improved the flow of credit. Also, the average employee workweek index has risen and corporate capital expenditures have crept into expansionary territory, albeit by a small margin. The Index of Leading Economic Indicators (LEI) posted a nice increase in both April and May (the June number has not yet been released). The six-month change in the LEI has now turned positive for the first time in over two years, an encouraging sign.

Inflation—to be, or not to be: The inflation debate has been getting a lot of headlines in the financial community of late, and rightfully so.

Intuitively, you would expect record U.S. government spending (the 2009 budget deficit is expected to approach $1.5 trillion), a Fed Funds rate near 0%, and record outstanding debt on the Fed's balance sheet to be inflationary. Few can argue the historical relationship between money and inflation.



Curiously, however, the current inflation debate appears to be rather one-sided. The vast majority of economists and other pundits seem to be in →

Economic Overview *(Continued)*

agreement that inflation is well under control. They see those who are concerned about inflation as alarmists. Here are their arguments:

- Falling home prices are a significant deflationary force.
- Wage pressures are low as unemployment continues to rise. Wages make up 65-70% of input costs for companies. With benign wage pressures, companies are better able to hold prices down.
- Americans are saving more (the percent of savings has increased from 0% to over 5%). An increase in the money supply in recessionary times when people are saving rather than spending is less likely to cause inflation.
- Excess capacity lessens inflation. When the economy is firing on all cylinders and capacity utilization is high, then deficit spending is inflationary. However, this is far from the case. In fact, at 68.3% we are in the midst of record low capacity utilization.
- A weak dollar does not, in itself, cause high inflation. The dollar has been falling against other major currencies since 2002. If the trend continues and the dollar drops another 10%, the price of U.S. imports would rise 10%. However, since imports represent only 18% of our total GDP, overall U.S. price levels would rise only 1.8%.

In summary, despite record government spending, a very accommodating Fed (they will likely keep the Fed Funds Rate near zero for an extended period of time), and large total deficits, most experts remain relatively unconcerned about inflation for the reasons stated above. They are probably correct, at least in the short-term. As the chart on page two shows, the CPI level indicates inflation is at low levels. At SHWM, however, we will be keeping a close eye on the situation and will continue to take prudent steps in our portfolios to help guard against the risk.

U.S. stocks turned in their best quarter in a decade.

Market Update

During the second quarter, U.S. stocks rebounded strongly, breaking a six-quarter losing streak. The 16% rise in the S&P 500 was the best quarterly performance in over 10 years.

Stocks around the globe rose as well, with the Vanguard International Index up an amazing 27%. Clearly, investors in the aggregate felt that stocks were oversold despite the global recession. Perhaps there was hope for a quick economic recovery.

Advances from here, however, will need to be based on improving market fundamentals more than anything else. For example, housing prices will need to stabilize. Corporate earnings will also have to improve from dismal levels.

Second Quarter 2009 Market Performance

Index	March	2nd Quarter	1 Year
Vanguard 500 Index Fund	0.2%	16.0%	-26.2%
Russell 1000 Growth (Large Cap)	1.1%	16.3%	-24.5%
Russell 1000 Value (Large Cap)	-0.7%	16.7%	-29.0%
Russell Mid Cap	0.4%	20.8%	-30.4%
Russell 2000 (Small Cap)	1.5%	20.7%	-25.0%
Vanguard Total International Stock Index	-1.3%	27.3%	-30.5%
Vanguard High-Yield Bond Fund	1.7%	14.4%	-3.7%
Vanguard Total Bond Market Index Fund	0.5%	1.8%	6.1%
Vanguard REIT Index Fund	-3.3%	30.0%	-42.5%

Source: Vanguard, Russell Investments

The expectation is that earnings for the second quarter will be down more than 30% from year ago levels.

Real estate was also up strongly during the second quarter and the bond market rose as well.

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Large-cap growth stocks typically have stronger balance sheets and are less dependent on debt.

Asset Class Highlights

During the quarter, we reduced cash positions in client portfolios and added a position in high-yield bonds. We believe bonds offer attractive yields right now, especially compared to cash. Money market yields are at very low levels due to the Fed Funds rate which has been slashed to next to nothing. Our bond allocations in general are short to intermediate-term. We believe there is a greater risk of interest rates rising than falling from here, so we are avoiding longer-term bonds.

We held our allocation to stocks steady during the quarter. It is our belief that when inflation kicks in and interest rates start to rise stocks will hold up better than bonds, so, as mentioned earlier, this is something we are watching.

Asset Class[1]	Rear-view Performance[2]	Future Expectations[3]	Comments
Large-Cap Stocks	🔴	🟢	Growth stocks should command a premium in the current slow growth environment
TIPs	🟢	🟢	A hedge against inflation; yields better than cash.
High Grade Corp Bonds	🟡	🟢	Yields still attractive despite falling credit spreads
High Yield Corp Bonds	🔴	🟢	Hold less risk than stocks; attractive yields available
Structured Notes	🟡	🟢	Opportunity for good returns with a buffer against market downturns.

[1] Asset classes represented by: Russell 1000 Growth Index (Large Cap Stocks), Barclays U.S. Gov't Inflation-Linked Bond Index, Vanguard High-Grade Bond Fund, Vanguard High-Yield Bond Fund
[2] Green light = return has exceeded our long-term expected return for the asset class over the past 3 years. Red light = return was lower than our long-term expected return for the asset class over the past 3 years. Yellow light = return was about equal to our long-term expected return for the asset class over the past 3 years.
[3] Green light = SHWM believes future returns (next 12 – 24 months) should exceed our long-term expected return for the asset class. Red light = we believe future returns should be below our long-term expected return. Yellow light = we believe future returns should about equal our long-term expected return for the asset class.
Long-term expected returns are 10 percent for stocks, 5.5 percent for bonds and 8 percent for alternative investments.

Legal Coordination *(continued from page 1)*

Of course, estate planning is more than just about minimizing tax. A sound estate plan should include the following estate planning documents regardless of age, health or wealth:

- A durable power of attorney to help protect your assets in the event you become unable to handle your financial affairs.
- An advanced medical directive to let others know your wishes for medical treatment (each state has its own rules to consider).
- A will to help you distribute property to your heirs in accordance with your wishes, name an executor for your estate, and designate a guardian for minor children.
- A letter of instruction (an informal non-legal document, to express any other personal thoughts or wishes including burial preference, location of important legal documents, etc.).

Many of us naturally postpone taking the necessary steps to create a successful estate plan. If this is something you would like to talk about now, please give us a call about becoming your family's CFO and helping you through the process.

As always, we thank you for taking a few minutes to read this letter, and we encourage you to call us with any questions you have.

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