SMITH & HOWARD
WEALTH MANAGEMENT
Your family's CFO.

January 2012

Dear Clients and Friends,

We are writing to inform you of changes we are making in discretionary portfolios.

Asset Allocation Change - Equities

Last fall, after stocks had fallen 15% (U.S.) and 20-30% (international) we added about 3-5% more equities to most client portfolios (see the following page for the explanation of our September 28, 2011 Asset Allocation Change). Since that time, and despite continued volatility in the markets and uncertainty about the European Union debt situation, U.S. stocks have risen about 12%*, and international stocks have risen, but less so. In seeking to follow our discipline of rebalancing out of asset classes that have had a strong recent run, we are reducing our allocation to stocks (mostly U.S.) by a similar 3-5% for most client portfolios.

This move should not be viewed as a change in our intermediate to long-term view of stocks - that view remains positive: profits are high, corporate balance sheets are strong and valuations remain attractive, especially compared to those of bonds and cash. However, there are several headwinds about which we are concerned, among them: the ongoing EU situation; a slowdown in China, which has recently been the main contributor to world economic growth; and a political climate in the U.S. that makes potential monetary and fiscal policy mistakes more likely and potentially more damaging. For most clients, these changes will result in an equity allocation that is about equal to their long-term average allocation, and a reduction from the slightly overweight position we established last fall.

Reinvestment of any cash above targeted levels will mostly be deployed to increase our holding in alternative investments, specifically the merger arbitrage fund we have held for some time. In our view, the high levels of corporate cash, reasonable valuations of many potential takeover targets and historically conservative nature of this fund make now a good time to add to this position.

*S&P 500 9/30/11 - 1/18/12

All opinions expressed and data provided are subject to change without notice. This letter is not meant to render tax, accounting or other financial advice. As with all financial information, you should seek the advice of your tax or financial professional before taking any action.

September 28, 2011

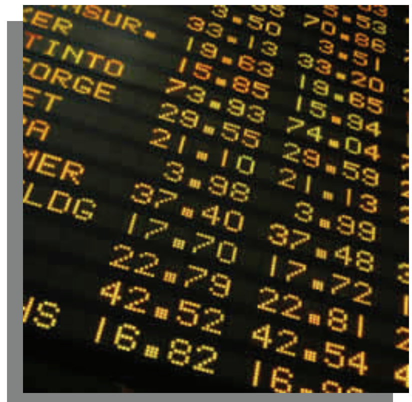
Asset Allocation Changes - Equities and Alternative Investments

Dear Clients and Friends,

We are writing to inform you of changes we are making in discretionary portfolios.

ASSET ALLOCATION CHANGE - EQUITIES

Global stock markets have sold off recently due to concerns about the European debt situation in general, and with Greece and other "peripheral" countries in particular. In our view, this is not news, but Europe's inability to form a cohesive strategy to deal with the situation is making investors increasingly fearful that an eventual default by Greece (or others) will lead to another recession in Europe, and perhaps globally. In recent days, European leaders have begun addressing the issue in more earnest, essentially pledging to not let any major financial institutions fail if a major sovereign default were to occur.



It is now possible that stock markets have priced in a full recession that may or may not happen, and if it does we believe it will be much milder than the last one. In the past 60 days, stock prices are down about 15% in the U.S and 20% to 30% in international markets.

As is often the case, volatility creates opportunity. We are taking advantage of lower stock prices to rebalance portfolios and to add slightly to our equity allocation (about 3-5% for most clients). Specifically we are adding to our theme of large multi-national dividend paying stocks, as well as some new bargains in Europe. For fully discretionary accounts, we are making the following changes:

Shifting international stock exposure to a slight emphasis on German stocks. Germany is the fourth largest economy in the world, is a huge net exporter, and is the strongest member of the EU. Germany's central bank expects its economy to grow 3% this year, its unemployment rate is at a two-decade low of 7%, and its unit labor costs are well below its European counterparts. Investors are currently ignoring these and other attractive characteristics, having pushed prices down over 30% in recent months. German stocks are currently trading at near record-low price multiples (*Barron's* September 19). Recently the DAX (Germany's Dow) had a dividend yield of almost 5%, and some of its blue chip names like Daimler, SAP, BASF and Siemens can now be purchased at very attractive prices, in our opinion. While many investors

fret over the prospect of recession in Europe, we note that going back over 40 years, every recession year in Germany (there have been six) has been accompanied by a positive (double digit) total return for stocks in the DAX. While no one can predict what the stock market will do in coming weeks or months, we believe our investors will be rewarded for owning stocks bought at these prices.

Replacing our emerging market position with one that focuses on high-dividend paying companies. We believe stocks in this fund have fallen more than is justified by their high dividends and lower valuations, which may provide cushion to any further downside.

Adding a position in U.S. technology stocks. This is one of the most unloved asset classes we follow. Unlike the late 1990s, when valuations reached extremes, the opposite is true today. The sector is trading at a discount to the already-cheap broad market for the first time since 1995. Meanwhile, profit margins are near their all-time highs for tech stocks, while many of their prices are still down significantly. Seventy-five of the largest tech companies hold over $350 billion in cash (about the size of Greece's annual GDP), and their collective debt-to-equity is the lowest of any sector.

ASSET ALLOCATION CHANGE - ALTERNATIVE INVESTMENTS

Last month we wrote to you about our decision to sell Treasury Inflation Protected Bonds (TIPs), due to the prices of TIPs increasing (and therefore their yields decreasing) to unattractive levels.
Due to the Fed's "Operation Twist" announcement last week, U.S. Treasury yields have fallen further, to near record-low levels. The yield on the 10-year Treasury bond recently reached 1.8%, and the 30-year bond is around 3%. In our humble opinion, this Fed action will do little to solve the real problems of housing, debt, unemployment and confidence. Nevertheless, given their decision to continue to force long-term interest rates lower, we have decided to take a tax-loss for clients who own the security which profits when rates rise. We are still confident in the eventual upward movement of interest rates, but are now less certain of the timing, because of the Fed's intervention. After the 30 day time period for wash sales has expired, we will revisit this decision.

Please contact us at 404.874.6244 if you would like to discuss these changes in more detail, or if you have any questions about your financial situation