



Integer Wealth Advisors Group, LLC

Advise, Guide and Protect

First Quarter 2011 Market Commentary

Normally we begin this market commentary with a review of our observations from the prior quarter, just to make sure we are prescient in our forward-looking views (or not). However, because of the unique events which occurred in the first quarter, we want to depart from this approach and pick-up on last quarter's comments later. Allow us to begin with this proposition:

Suppose we sat down the day before the events of the past quarter occurred to discuss investments. After our normal discussions we suggest the following scenario and ask you to handicap the reaction of the stock markets if our scenario occurred simultaneously, or in close proximity to one another:

1. An earthquake that measures 9.0 in magnitude that;
2. Shifts the world's axis by six inches and;
3. Moves a landmass eight feet east and;
4. Spawns a tsunami with a 30-foot wave and;
5. Causes six nuclear reactors to shutdown triggering radiation leaks, meanwhile;
6. The overthrow of the Egyptian president, Hosni Mubark occurs and finally;
7. An uprising in Libya that attempts the overthrow of Moammar Khadafy after 40 years in power that leads to an international coalition of intervention.

Your first reaction would be to suggest we were nuts; that seven "black swan" type events like these could never occur in that close of proximity. Your next reaction would be that, at most, these would be "100 Year" events not likely to occur simultaneously or in close proximity to one another. Finally, after being pressed for a number, you might say that the stock markets would have a sell-off so severe as to exceed the largest single day losses by a factor of four.

Amazingly, these events did happen, beginning on January 25th, 2011 with an uprising in Egypt that resulted in the overthrow of the government of Hosni Mubark. Then on February 15th protests began against Moammar Khadafy which promoted a civil war to break out. Then on March 11th, the world literally shuddered when a 9.0 magnitude earthquake hit off the coast of Japan that shifted the world's axis, moved Japan eight feet closer to the United States and spawned a tsunami that wiped out hundreds of towns and villages in the prefecture of Fukushima and caused six nuclear reactors to go offline while four of the reactors overheated or caught fire.

What is amazing was the resiliency of the United States stock market. With seven concurrent "black swan" events happening, the Dow dropped a mere 600 points, only to recover virtually all that ground by March 31st. As you will see a bit later, the markets in the United States during the first quarter of 2011 dominated the markets in Asia, those of the developed international markets and the emerging markets. It is a testament that when there is uncertainty in the world, capital flows to the United States.

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JANUARY

January started off on a positive note as the Dow rose 0.84% in the first five trading days. The 112th Congress was seated and Republicans got to work quickly to make good on their promise to slash government spending. Speaker Boehner pushed through rules designed to make it harder to raise taxes, increase spending and lift the federal debt ceiling. President Obama embarked on wooing businesses during his State of the Union address by indicating a willingness to cut corporate-tax rates, achieving more trade agreements, investing in infrastructure and education, and freezing discretionary spending. Better news, was that the unemployment rate fell to 9.4% in December, the lowest level since May 2009.

Unfortunately the number of Americans filing for personal bankruptcy topped 1.5 million last year highlighting the fact that the economy still needs to be producing jobs and growth at a higher rate. Fed Chief Bernanke told the FDIC forum that the U.S. economy should expand by 3% to 4% this year. Gold and silver continued their march higher, with gold touching \$1,422.60 per ounce and silver hitting a post-1980 high of \$31 per ounce. Both metals pulled back on those high levels after the Fed said it would continue its bond buying...gold settled at \$1,368.50 per ounce and silver at \$28.66 an ounce. Bernanke's predictions for economic growth seemed to be in-line as the economy advanced an annual rate of 3.2% in the fourth quarter of 2010. The only cloud in a relatively good January was the continuing debate over the state of the municipal bond market. Driven by comments from former bank analyst Meredith Whitney, prices for municipal bonds dropped as investors feared the worst. Fortunately, cooler heads prevailed as sharp-eyed investors recognized that not all municipals are created equal and snapped up high quality bonds offering attractive yields. By the end of January the Dow had closed out a nice performance, with the index closing at 11823, up roughly 2%. The theory of "as January goes, so goes the Dow for the balance of the year" gave investors a glimmer of good news about potential higher returns in 2011.

FEBRUARY

February brought more market uncertainty as the Middle East pressure-cooker finally began to boil over. The biggest news of the day was the resignation of Egyptian President Hosni Mubarak, coming after three weeks of protests by Egyptians. The immediate question of the Middle East uprising was "who would be next"? Saudi Arabia and other monarchies in the area were certainly put on notice that this uprising was not going to go quietly into the night. Libya was the site of the next uprising that quickly spiraled into a civil war involving U.N. intervention. These were just a few of the unusual market risks that investors had to take into account as they plotted a course for the remainder of the year. Back in the United States, things looked a bit like the Middle East as protestors in Wisconsin, along with legislators, protested cuts to state worker collective bargaining agreements. All this aside, the markets continued an upward momentum fueled by what gives investors the most pleasure...profits and good economic news. U.S. retail spending online, for example, continued to grow in the fourth quarter with an estimated rise of 11% in spending. Profits across the board were stronger than the previous year. Meanwhile unemployment continued



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to improve as jobless claims fell. This improvement in the economy came as commodities of all stripes continued to rise. The U.S. Agriculture Department forecast that U.S. food prices would jump between 3% and 4% this year. Despite the increase in commodity prices and food and energy inflation, the U.S. stock market hit a two and one-half year high in the middle of February, closing at 12130 by the end of the month.

MARCH

March 9th, 2009 seems like a lifetime ago, yet two years later it is easy to remember what it felt like teetering on the brink of disaster. The Dow had collapsed to less than 6500, and the S&P 500 traded at 675. Fast forward and the Dow is now above 12000 and the S&P 500 touched above 1300. The resiliency of the stock market is certainly amazing, but more importantly is how well investors did who stuck to their guns at the bottom of the market. March was an incredibly difficult month as the devastating earthquake in Japan added to the previously mentioned “black swan” events that challenged investors. What cannot be put into doubt is that despite the events across the globe, and the machinations of the political debate in Washington, investors seek value in companies that are well-run and produce profits. Despite all the headwinds and black swan events, the S&P 500 for the month of March was only down -0.11% (-.0011).

DOMESTIC EQUITIES

Index	Returns for the Quarter	YTD
S&P 600 Small Cap	7.43%	7.43%
NASDAQ Composite	4.83%	4.83%
Dow Jones Industrial Average	6.41%	6.41%
S&P 500 Index	5.42%	5.42%

(Returns are without dividends. Period Ending 3/31/2011)

<u>Company</u>	<u>Percentage Weight</u>	<u>1Q2011</u>
S&P 500		5.4%
Energy	12.0%	16.3%
Materials	3.7%	4.1%
Industrials	10.9%	8.2%
Consumer Discretionary	10.6%	4.3%
Consumer Staples	10.6%	1.7%
Health Care	10.9%	5.0%
Financials	16.1%	2.8%
Technology	18.7%	3.2%
Telecommunications	3.1%	5.2%
Utilities	3.3%	-0.2%

Source: S&P Global (www.spglobal.com)



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Style Return Box for the First Quarter 2011

	VALUE	CORE	GROWTH
LARGE	6.80%	5.90%	5.03%
MID	8.83%	9.29%	9.77%
SMALL	6.31%	7.67%	9.09%

Information provided in the above chart represents the quarterly returns of the S&P and I-shares for each class. Returns include reinvestment of dividends.

International Returns Box for the First Quarter 2011

MSCI EAFE	MSCI EMERGING	MSCI ASIA Ex-Japan
3.33%	2.05%	1.16%

INTERNATIONAL

The international marketplace was dominated by the previously mentioned “black swan” events to such an extent that most other international news was pushed to the back pages. The European Central Bank began to hint at interest rate increases in March, while countries such as Portugal were downgraded by Standard & Poor’s. China’s central bank raised banks’ required reserve by half a percentage point, the third increase this year in a bid to stem inflation. As the previous boxes highlight, the United States was the place to be during the first quarter of 2011. While this may be a short-term phenomenon it does remind investors that when events across the world lead to uncertainty all eyes turn to the United States. We mentioned the “black swan” events, but remember that the world also had to content with devastating floods in Australia that interrupted iron ore and coal production, along with the continued uncertainty of solvency issues for the European Union countries.

We have not even focused on rising commodity prices such as gold, silver and copper and rising oil that touched near \$100 per barrel. Rising commodity prices in emerging market countries is a double-whammy to individuals because a disproportionate amount of their income goes to food and energy spending. This is why we are seeing countries like China moving their interest rates higher to help blunt the impact of commodities priced in dollars. When the dollar is worth less, commodities cost everyone more, and those costs fall hard on emerging countries where there are a larger proportion of low income inhabitants.



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IN SUMMARY

Market Theme – Improvement Continues

In our opening paragraph we decided not to review what we said in our fourth quarter 2010 commentary, however, as we reviewed our comments from this space from last quarter, it's hard to make an improvement on those sentiments. Here's what we said:

“Investors have begun to embrace the notion that the worst is behind us and that better days lie ahead. In previous market commentaries we noted that Washington was in a “command and control” mode on the economy. Businesses were taking their marching order from Washington in the form of new regulations that made investing in new plants, equipment and personnel difficult to execute. This made consumers, who are the employees of small businesses and corporations, reluctant to spend as the uncertainty of their job, home values and 401(k) balances hung in the balance. Over two years after the epic financial meltdown of September 2008, investors have slowly moved back into equities where prices provide compelling future returns. At this writing the Dow is approximately 2,900 points from the all-time high mark set in October 2007 and it makes sense that it should take awhile to repair the damage. Investors recall too vividly the 2000-02 equity bubble burst, and having now lived through a credit freeze, a slow, cautious embrace of the markets is a prudent approach. Putting the market theme in a sports vernacular, investing is a “marathon” not a “sprint.” Investors will continue to be cautious but as the markets improve so too does the confidence. In the end what will return the investor to full-blown confidence is when hiring begins to look sustained, banks begin lending with less onerous terms, home prices firm, and homebuilders begin building new homes. Providing this confidence will be the 112th Congress who can do much by delivering on the promises to return the country to fiscal responsibility.”

As we look forward to the balance of 2011 we believe the recovery continues as confidence improves. Merger and acquisitions continue to improve, the dormant IPO market is showing signs of life and unemployment, while still stubbornly high, is making small improvements. Housing still has a ways to come, but watch this market as interest rates begin to rise. Homebuyers who are “on the fence” will do some quick math that proves a lower interest rate over the next 30-years trumps the risk of a house losing 10% in value. As we have said in the past, what really controls this market is the debate in Washington, D.C. Will politicians make the tough decisions this country needs to fix the balance sheet? Just like the 18-months leading up to the 2008 elections, the 2012 elections will once again frame the debate and, perhaps, the voters will respond by electing politicians with the political backbone to make difficult financial decisions that are in the best interests of our country.

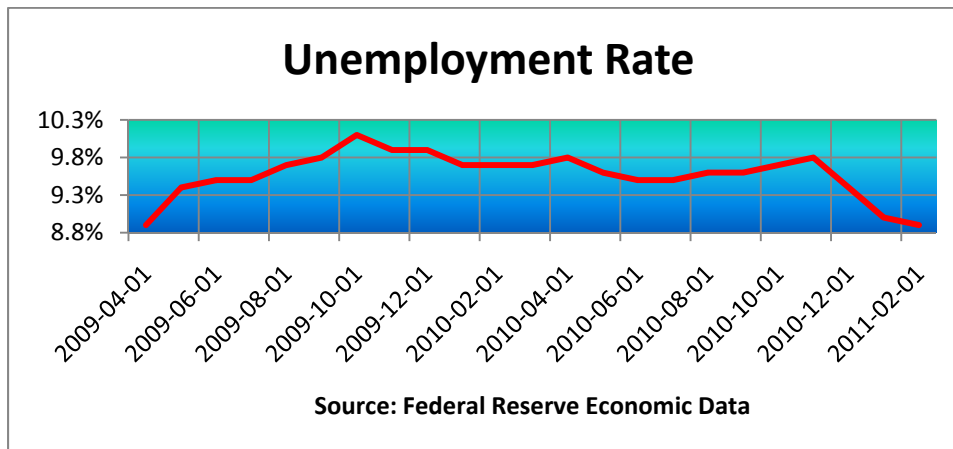


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The Economy – Hope springs eternal!

Employment

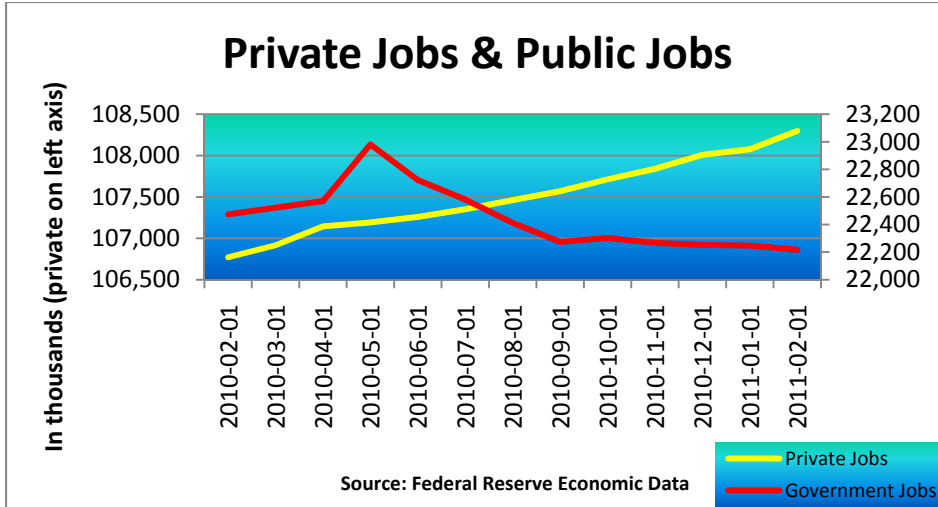
The job situation has been grim since the credit crisis of 2008, however, we continue to see improvement in employment picture. The key word, however, is “continue”, as we are still millions of jobs away from anything that resembles a good employment situation. Below is a graph of the U.S. unemployment rate to highlight this issue. Since November, the unemployment rate has dropped 90 basis points (or 0.0090).



One thing to consider is where the jobs are created. While we did have a spike in jobs in 2010 it was mainly from census workers and other government jobs. Now we are seeing government spending catch up as federal, state, and local governments cut jobs. It is remarkable to see private jobs picking up the slack of a shrinking public job sector while still keeping up with population growth. While the good news is private jobs are improving, the better news it is in small and medium sized businesses that we are seeing this growth. Small businesses make up around two-thirds of total jobs in the United States. (see graph on next page).

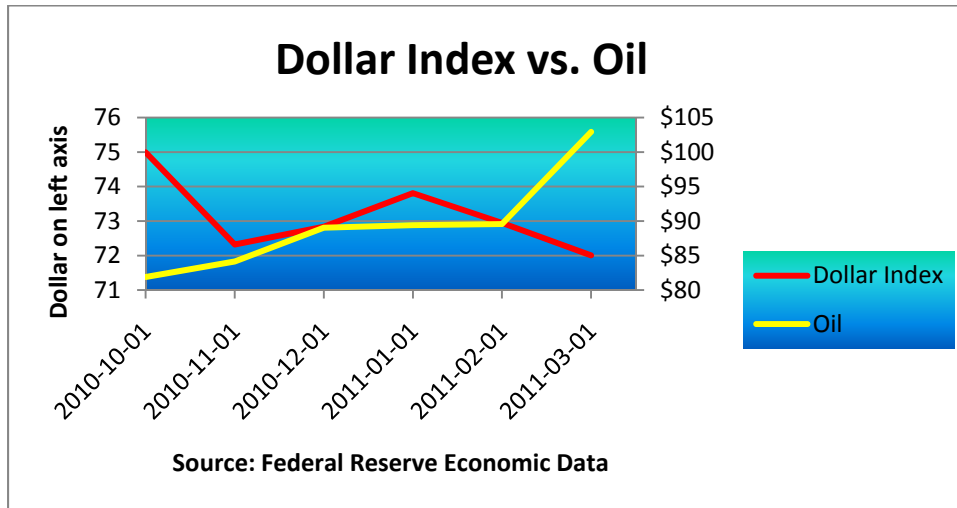


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Inflation

We are seeing the actions of the government and Federal Reserve “take its course” as the monetizing of our debt and easy money policy has caused many prices to go up as our dollar has weakened. Below is a graph of the value of the dollar against the price of oil. While part of the rise in oil can be attributed to a weakened dollar, we must also keep in mind that demand for oil is increasing as the global economy recovers and expands. Clearly oil needs to find an acceptable price range in order to avoid snuffing out the continuing economy recovery.



Portfolio Monitoring: Portfolio monitoring, as always, focuses on a number of factors such as the quality of the investments in your portfolio, asset allocation and levels of cash.

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Over the past 24 months the focus has been on “keeping some powder dry” as the market turmoil continued to provide uncertainty for investors. With the Federal Reserve continuing to spend \$600 billion to inflate assets, the concern is in the bond market. We have been shortening portfolio durations in anticipation of rising yields while maintaining a high credit quality. No bonds, regardless of how short in duration, are totally immune from drops in prices due to inflation or a shift in investor sentiment. Now that the Fed has indicated it will end the “Quantitative Easing II” program, the next issue confronting us is the level of inflation. We have penned a piece on the subject which is available on our website (www.integerwealth.com), and we are beginning to see the effects of putting a lot of dollars into circulation. This should come as no surprise to anyone since the stated objective of this “easing” is to re-inflate assets. We are recommending that if you have not already done so, to consider the addition of a strategic inflation component to their portfolios in the form of a commodity fund, real estate or other security that has some direct relationship to inflation. Granted that while real estate has been a tough category for an investment, hard assets do follow inflation and, therefore, provide some relief. What an investor must do at this point is to reassess the asset allocation of the portfolio to make sure the strategic allocation is still reasonable. As the charts presented on page four highlighted, U.S. domestic equities posted strong results. If these types of returns continue, equities will command a larger part of the portfolio requiring an assessment that the allocation is still reasonable.

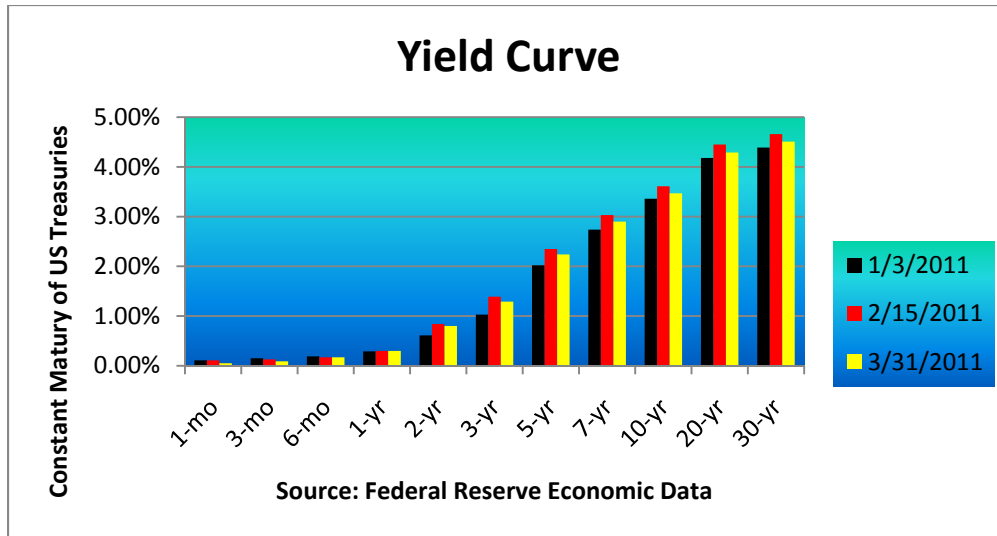
Manager Monitoring: There were no manager issues in the first quarter of 2011. We continue to monitor the managers running the mutual funds in your portfolio. On a quarterly basis we review the funds for style consistency, manager turnover and performance relative to their peer universe. It is during these times that we pay special attention to a manager’s holdings, relative performance and the amount of cash in the portfolio.

Fixed Income

The graph below highlights the primary issue in the bond market...a fight between bond investors and the desire of the Federal Reserve to lower yields by inflating Treasury prices. Bond investors have reacted predictably by selling off the long end of the yield curve and moving money shorter, as evidenced by the steepening yield curve as maturities lengthen. Bond investors understand that an eventual rise in interest rates can decimate the value of the bond value, effectively wiping out the interest earned on the bonds. This sets-up an interesting situation which bears watching. Should 30-year bonds begin to scratch near a 5% yield investors will take note and, no doubt, begin tactically adding those attractive yields. This movement would come at the expense of equities as investors shift among the most desirable yields available. The real question is would investors in a 5% 30-year Treasury be “catching the falling knife”, only to see yields move higher? For this reason, tactical allocations to fixed income based upon rising yields should be done on a “dollar-cost-average” basis to guard against yields moving even higher (bond prices and yields move inversely to one another, so lower prices mean higher yields and vice-versa)



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Cash: We continue the same observations as last quarter regarding cash. There are virtually no yields available in cash. Alternatives include high quality, short-term investment grade bonds via mutual funds. However, these are not substitutes for cash investments where investors must be assured of the value of their cash as bond funds can lose money. The best approach to managing cash is managing the amount of cash you need to hold in your portfolio for living expenses and other short term obligations. By doing so this may allow for strategic reallocation to increase your yield with short-term high quality bond funds.

Equities: The first quarter of 2011 has provided great returns for domestic U.S. equities, a bit less so for international equities. What continues to drive prices higher are corporate profits, the rising merger and acquisition business and the perception that the worst of the financial crisis is behind us. Investors who were “long” the market at the bottom of March 2009 have been well rewarded. The returns in some of the domestic U.S. equity groups for the quarter produced returns that some investors would expect for an entire year. Suffice to say that the global recovery has been well underway for some time; events like the earthquake in Japan will provide an opportunity for companies to sell products and services to that country for the next couple of years.

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