



Integer Wealth Advisors Group, LLC

Advise, Guide and Protect

Second Quarter 2011 Market Commentary

Here is an excerpt from our last quarter commentary:

As we have said in the past, what really will have an impact on the market moving forward is the debate in Washington, D.C. Will politicians make the tough decisions we need to fix the country's 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.

The Four "G's"

With a nod to the wireless networks of the world we do not mean "4-G" wireless. Our four "G's" stand for: Greece, Grease, Government and Growth. These are the issues that have dominated the news for the past few months and one or more of them will be in the news for quite awhile. One will have ended on June 30th...the "grease" of the Quantitative Easing by the Federal Reserve. Another, the country of Greece, will still be working out an austerity plan to avoid bankruptcy; Government refers to the looming showdown in Washington over the budget and deficit limit due to come to a final head on August 2nd or 3rd; and the final item, Growth, refers to the economy and whether or not we will see perceptible increases over the next few quarters.

Greece

Regardless of the austerity package that will be voted in, Greece will continue to be a drag on the backs of the European banks that hold most of the debt. On June 29th, the Parliament did pass an austerity program in order to qualify for aid from the European Union. The Parliament consists of the Panhellenic Socialist Movement, New Democracy, Communist Party, Popular Orthodox and the Coalition of the Left. Many of the smaller political groups had suggested that Greece not pay back the debt, in effect, stiffing their creditors. Fortunately, cooler heads prevailed as the vote was taken. To provide some perspective on the size of the problem the Greek's face consider that the GDP of Greece in 2010 was forecast at \$315 billion dollars. That represents an economy that is one-third the size of Texas, but with a growth rate that was forecast to be negative 4.0% for 2010. Seventy-three percent of Greece's GDP is derived from services with shipping and tourism accounting for much of that number. The debt of the country currently stands at 158% of the GDP.

With a population that has been brought up on lavish state benefits, including early retirement with some Greeks getting 80% pay at age 53, it's hard to imagine that any austerity program is going to go down well with the population. We witnessed rioting as a result of the austerity vote and we cannot imagine what will occur when cuts actually come to fruition. In our opinion, and that of many observers, this vote simply delays the inevitable....a total restructuring of the debt in which lenders take a "haircut", the austerity programs work their way through the system and the days of "cradle-to-grave" government care are finished in Greece.

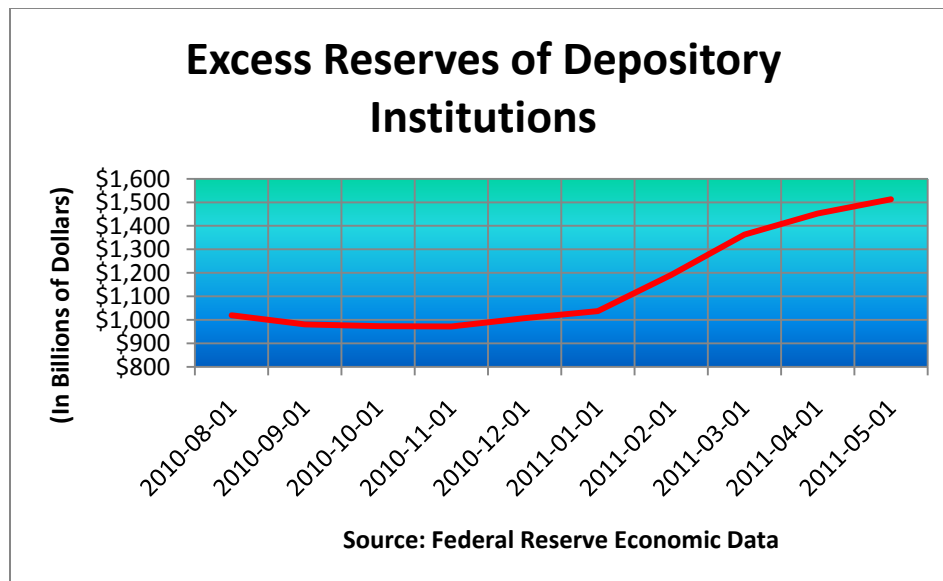
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Grease

June 30th, 2011 marked a somewhat official end to the quantitative easing that “The Ben Bernanke” announced last August. Designed to help inflate assets by injecting more liquidity into the markets through the purchase of Treasuries, most investors approached the end of the program with some uneasiness, especially in the bond markets. The thought is that there will still be “easing” by virtue of remaining interest payments to the Fed which will continue to be recycled into Treasury purchases, something the Fed has routinely done. Further, the Fed has not definitively said there would be no additional easing should the economy not improve. There will be disagreement about the effect of the program on unemployment, housing prices, interest rates and commodity prices, but in the end it did not seem to have the impact the Fed was hoping for, namely improving the unemployment picture.



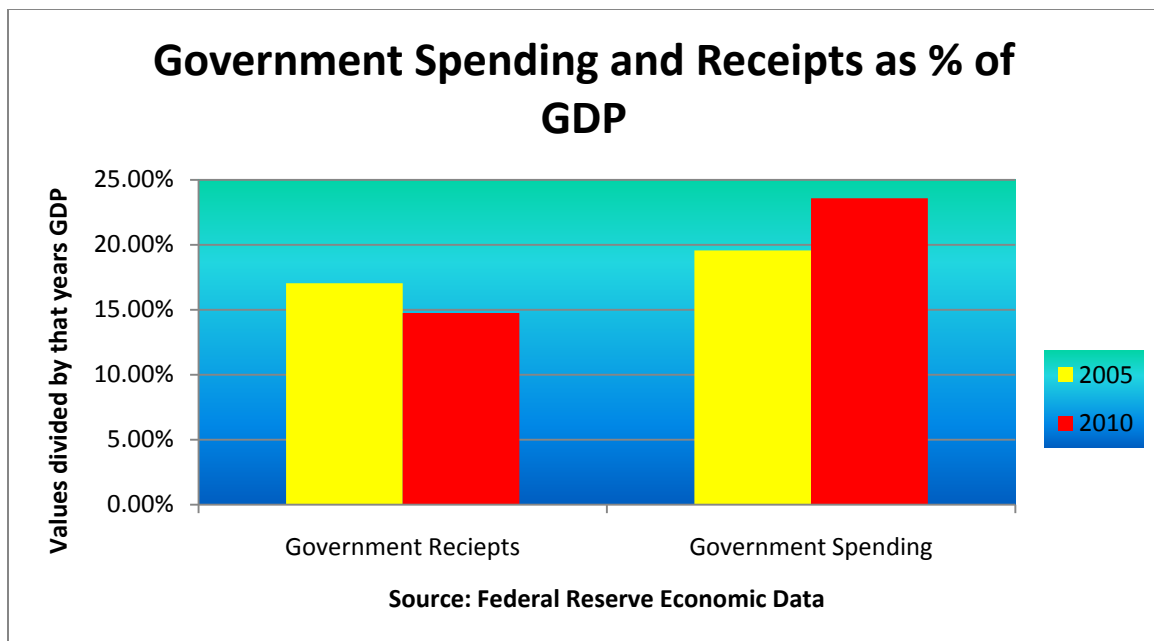
The graph above shows the excess reserves by depository institutions. We are seeing little effect of the Grease put out by the Fed as many claim the funds have not reached the economy yet. Commentators say it takes an average of 6-18 months for the economy to show effects. The amount of Grease pumped in by Bernanke was around \$600 billion. When QE2 was announced last August, excess reserves totaled around \$1 trillion. Fast forward to May, and we see this number increasing to around \$1.5 trillion. This staggering increase makes investors believe the money being sent out by Bernanke is just sitting in the vault, not being lent.



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Government

The showdown at the O.K. Corral has nothing on the showdown looming on Capitol Hill come August, 2011. The anticipated dates are either the 2nd or 3rd, however, these are simply constructs derived by politicians to sow worry in the other party. With the budget deficit impasse and spending cap looming, this is the biggest “G” of the four. Let us be clear that if no resolution is made, and the United States enters the semantically charged world of “default” to bondholders, the cries of “default” will be loud. While the U.S. might be late on their interest payments due to the impasse; it is sheer folly to believe the U.S. government will not make good on those payments. The military will get their pay, the FAA will still be in the towers directing air traffic and, most importantly, grandmother will get her Social Security check. In the end, investors want the uncertainty to become certainty, regardless of what the decisions are. Good or bad, the finality of the moment will be incorporated into investment decisions. In this case, most agree that the unbridled spending cannot continue without substantial reform to entitlement programs and wasteful spending. If the impasse is broken by an agreement that does not address long-term debt with vigorous cuts in spending while holding taxes steady (or even reducing them), investors will vote with their heels and we will most likely see a drop in the stock markets.



This shows government spending and receipts as a percentage of GDP. It is obvious that spending is taking up more of our GDP in the past but consumers do forget that a recession also affects government receipts (taxes). When people are working less, the US government does not have as many taxpayers with income. It is easy to understand but also easy to put aside.



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Growth

Growth of jobs is, and will be, the number one issue going into the 2012 elections. Fully dependent upon the issues that result from budget, spending and taxation policies, the present Administration will be in the lurch as unemployment cannot appreciably fall before the elections. In order to achieve unemployment rates that approach 8%, the economy will have to add 200,000 jobs each and every month for the next 8.3 months to move the unemployed number of persons from 13.9 million to 12.3 million. To move the rate to 7% would require that 3.15 million jobs be created or filled requiring substantially more than 200,000 jobs per month.

To be sure, there are plenty of jobs that have gone unfilled, but many of these require skills that many of the newly unemployed do not possess, or are at wages that are below what a person is willing to accept. Retooling takes time as one cannot switch easily from a sales position to a tool-and-die person overnight; while accepting lower wages comes only after exhaustive searches for new jobs drive home the reality that the lower wage is the best available alternative. Further, the mobility of the workforce has been curtailed because of the housing slump. It is not as easy today to move your family across the country as it once was when houses sold in a matter of days. The transition to this new reality will take time, but eventually the market repairs and growth of the economy will get back on track.

APRIL

April had its share of interesting news as the month started off with the Dow tacking on 156 points in the first week of trading. One of the more bizarre incidents occurred when David Sokol, heir apparent to Warren Buffett, resigned amid disclosure about his stock trading in Lubrizol, a company being acquired by Berkshire. Then the “budget battle royale” cranked into high gear as the federal government was poised to shut down for the first time in 15 years. Oil surged to a new 21/2-year high as the dollar was hammered, sending May deliveries on oil to \$112 a barrel, and gold and silver moving up 3.2% and 7.6% respectively. U.S. consumer prices continued to move higher as the CPI for March rose 0.5% from February’s close. Consumer sentiment rebounded only slightly in early April, as inflation fears, caused many households to remain hesitant about the economy. The University of Michigan consumer sentiment index rose to 69.6 in early April, from 67.5 at the end of March. Seasonally adjusted housing starts remained below the March 2010 rate. Trumping this news was the report that GE’s first quarter profits jumped, AT&T posted a first-quarter profit that jumped by 39% and the merger and acquisition market was still looking strong. As any partygoer knows, every party needs a party-pooper, and Standard & Poor’s did not disappoint. S&P changed its outlook on U.S. Treasury securities to negative from stable. The AAA rating for Treasuries was still in place but the mounting debt crisis could place that gold-plated rating in jeopardy. Investors seemed to shake off that news as they pushed the Dow Jones industrial Average to within a few hundred points of 13000. Gold and silver continued their march higher with calls for silver to reach \$50 per ounce by summer.



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MAY

The trump card of good news for the quarter wasn't financial; it was the news that Osama Bin Laden had been killed by an elite group of Navy Seals. We are sure that the book on that operation will be one big best seller to be sure. It did not take too long for the apparent bubble in the metals area to burst, especially silver. In one spectacular week ending May 6th, silver prices declined by 27.4%, the largest weekly percentage decline since the Hunt brothers tried to corner the market in 1980. On May 5th, silver dropped 8%, crude oil was down 8.6%, cotton was down 4.5%; copper was down 3.3% and the Dow itself finished the day down 1.1%. Despite unemployment dramatically improving in April, pushing the unemployment rate down to 8.8%, investors seemed to be heading for the exits. The news was not better coming out of Europe as Greece and Spain looked to be back in bailout mode to avoid collapse. China tightened their interest rates for the fifth time this year, raising lenders' required reserves by an additional half of a percentage point. Adding to mixed signals in the market was a very successful IPO of LinkedIn, which surged \$77 dollars above its \$45 offer price. By the end of the first day of trading in the stock, the company sported a market cap of \$8.9 billion. Not too bad for a company whose stock price represents a P/E of about 50! Capping off the month was a report that 76% of the S&P 500 companies either met or beat analysts' earnings estimates. Still investors were cautious as evidenced by trading volumes across the markets. By the end of the month the markets had posted their first negative month since August of 2010.

JUNE

After coming through the month of May a bit scratched up, investors had to endure the first six days of June with more negatives. The first six trading days of June were negative, matching a streak not seen since October of 2008. Clearly investors were wondering if they were on the precipice of another market slide. June continued the disappointing string of down days in the market as investors struggled with weak economic data and a Fed Chairman's comments in a June 7th speech that confirmed what they feared...the economy was not growing fast enough. By the end of the first full week of trading, the Dow had its worst two week period since 2002, certainly not good information for investors who look for patterns of market behavior. Unfortunately the balance of June did not turn around as investors exhibited uneasiness about events unfolding overseas and the continuing battle over the debt ceiling. The month rounded out with the US Government releasing 60 million barrels of oil from their reserves with hopes of pushing down prices and picking up slack brought on by Libya. While the act did help push down oil, the price fully recovered within a week. Going into the Fourth of July holiday investors have their eyes on the "4-G's" with the near-term focus on our budget and national debt.



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DOMESTIC EQUITIES

Index	Returns for the Quarter	YTD
S&P 600 Small Cap	-0.2%	6.97%
NASDAQ Composite	-.27%	4.55%
Dow Jones Industrial Average	.77%	7.23%
S&P 500 Index	-.39%	5.01%

(Returns are without dividends. Period Ending 6/30/2011)

<u>Company</u>	<u>Percentage Weight</u>	<u>Year to Date 2011</u>
S&P 500		5.01%
Energy	12.6%	10.40%
Materials	3.7%	2.64%
Industrials	11.1%	6.89%
Consumer Discretionary	10.6%	7.56%
Consumer Staples	10.7%	6.29%
Health Care	11.6%	12.65%
Financials	14.7%	-3.68%
Technology	18.3%	1.57%
Telecommunications	3.0%	4.35%
Utilities	3.3%	6.71%

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

Style Return Box for the Second Quarter 2011

	VALUE	CORE	GROWTH
LARGE	-1.47%	.10%	1.64%
MID	-2.2%	-.73%	.77%
SMALL	-2.19%	-.16%	1.96%

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.



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INTERNATIONAL

The international climate was a mixed bag of news starting with China raising interest rates to cool down their economy. In Europe, the European Central bank contemplated a rate hike to head off inflation; while the head of the International Monetary Fund, Dominique Strauss-Kahn, resigned in the wake of allegations that he sexually assaulted a hotel maid, tossing the French presidential elections into chaos. Finally, the debate re-emerged about the need to once again help Greece and Spain out of the difficult straits, while Italy was teed-up as the next country to come tumbling down.

The Middle East continued to cause concern in places such as Syria and Egypt. Syria's government was using security forces to stamp out opposition and to silence dissidents to the ruling party. In Egypt the Muslim Brotherhood indicated that it would run for president, raising the possibility that Islamist politicians could dominate both the presidency and parliament. Topping all of this discourse was a public clash between the White House and Israeli leader Benjamin Netanyahu regarding President Obama's suggestion that peace talks resume based on Israel's borders prior to the 1967 Six Day War.

Clearly international politics during the quarter played a bit more heavily in the markets than we have seen in the past, perhaps playing into investor's decisions on whether or not to invoke the "sell in May and go away" principle.

Greece, however, was the main focus for investors as their debt problems finally came full-circle. The Greek Parliament voted on a package of austerity measures, including selling off a good deal of government owned businesses that sparked protests in Athens. The story of Greece making its way out of the current debt crisis will play out over the next few years. In our opinion, the European banks are buying time as they "roll over" the debt in hopes of an economic and social revitalization of the Greek economy. If it happens it will truly be an economic miracle that sets the stage for the other countries to follow.

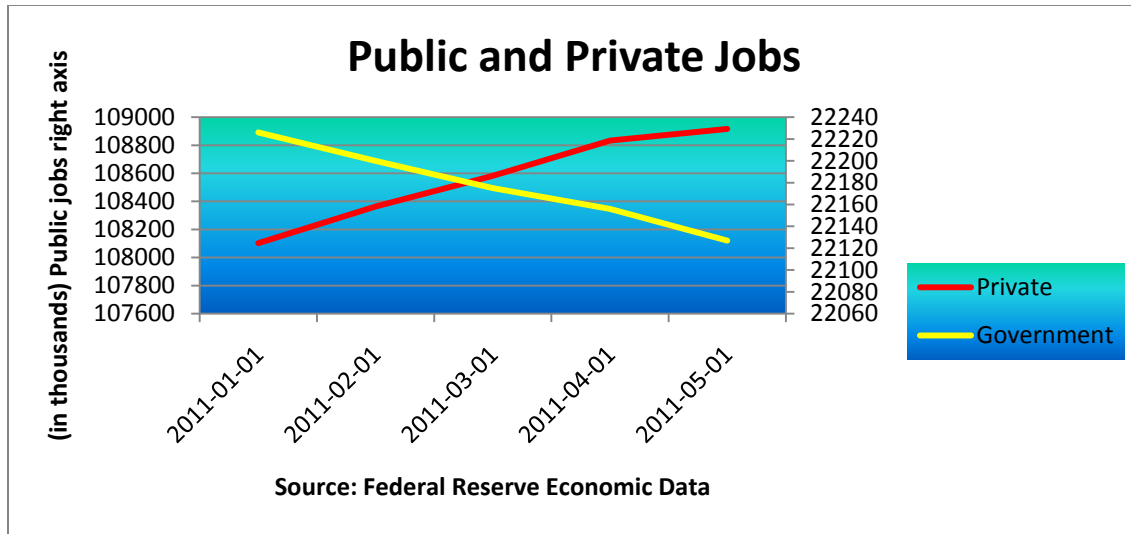
The Economy – Bump in the Road!

EMPLOYMENT

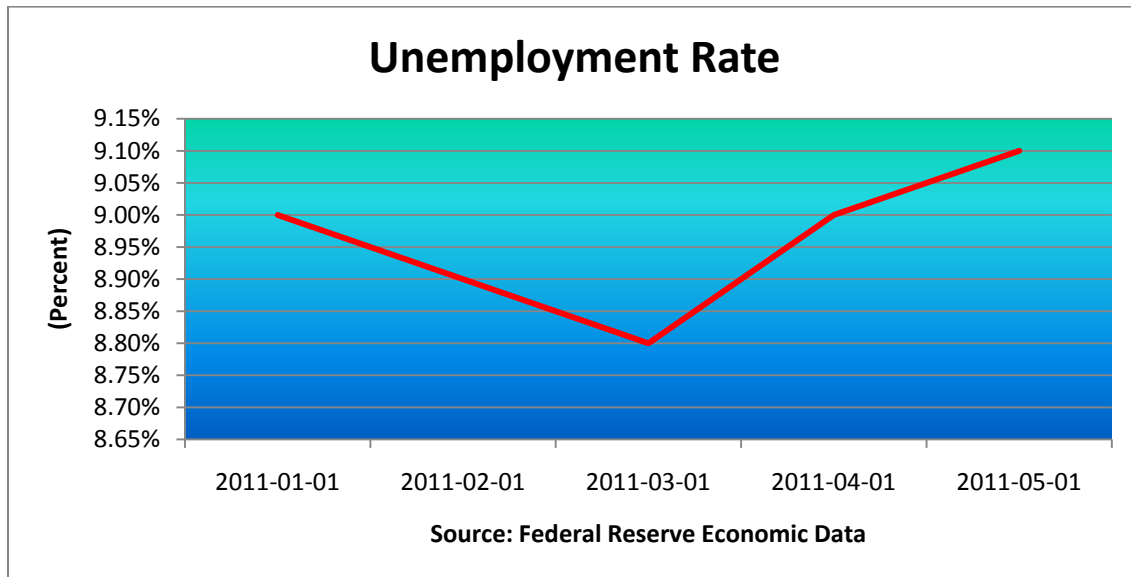
The job market continues to look grim as hundreds of thousands of U.S. workers filed for unemployment benefits for the first time each week. Last year, we did an employment outlook for the future that outlined a "new normal" for the medium term. We did see the employment situation helped quite a bit last year from the government hiring. As the increased payrolls have caught up to the government in giant deficits and record public debt, we remember stimulus is only temporary.



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Here we are seeing growth in private jobs. This chart may appear to be going in the right direction, but we are only keeping up with adding about as many jobs as the number of new entrants in the labor force. This explains why we have not seen the unemployment rate recover as quickly. The private sector also has to support the layoffs by the government.

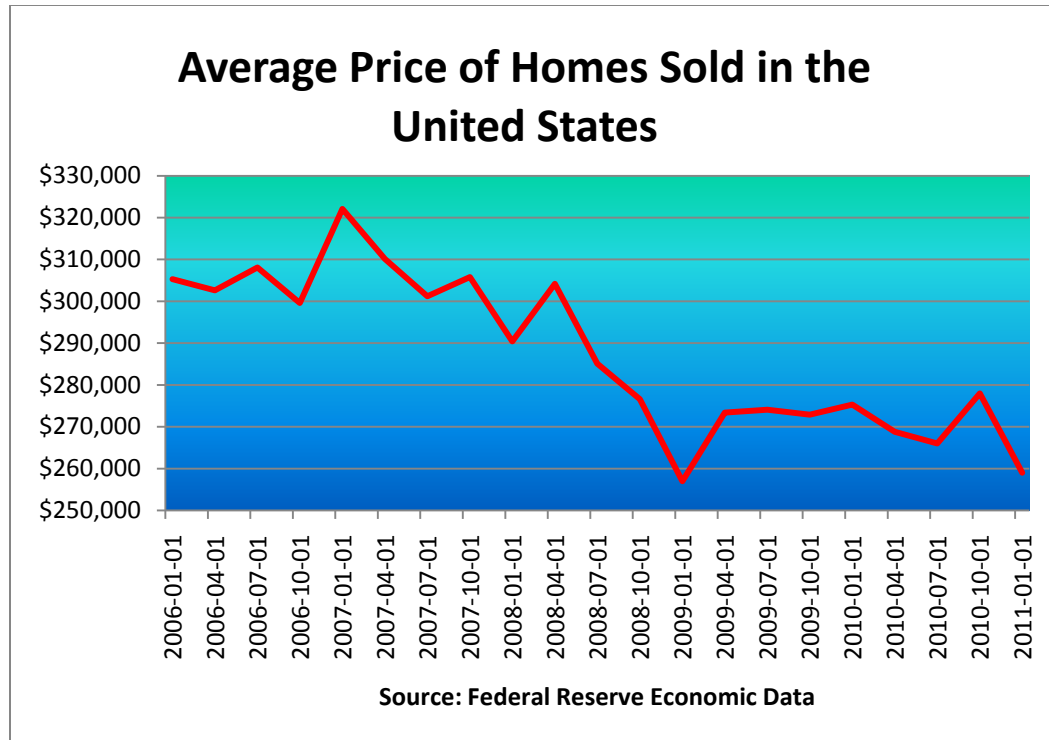


HOUSING

The economy is still struggling to stabilize the housing mess. With the supply of foreclosed homes still at high levels and home prices being under pressure, it is difficult for people to get loans to start small businesses and even more difficult for workers to sell their current homes so they can relocate to find, or accept, employment.



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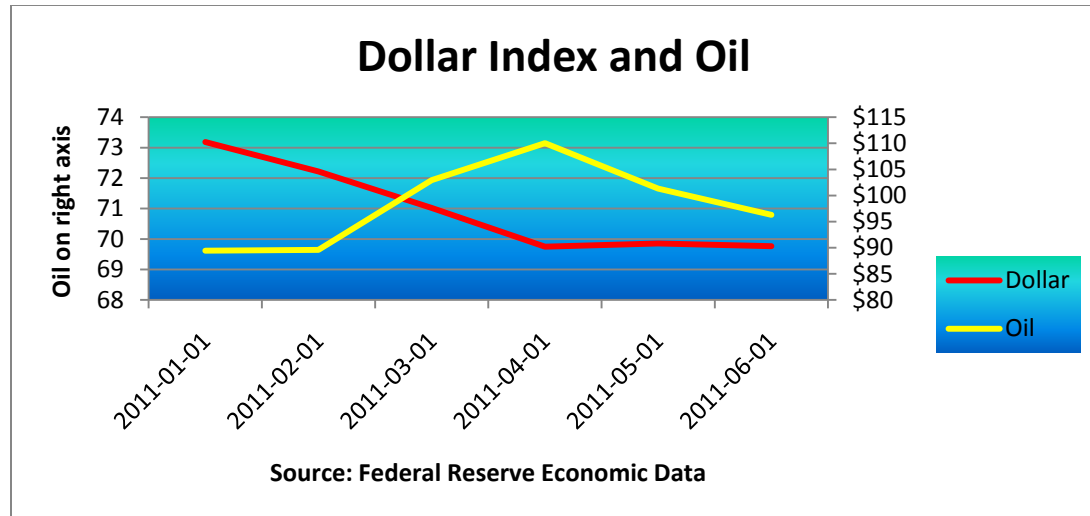
The graph shows the painful story that many families are feeling. For those who bought a home before the bubble burst, some have to take \$70-\$80 thousand dollar losses on their investment just to get out of the mortgage. The government has tried to help by offering tax credits and lowering interest rates to encourage buyers, but with such bad employment, who are going to be the buyers?

INFLATION

We have gone through some rough waters as the commodities have taken a hit this quarter. Even with the underperformance, they are still positive for the year. With speculation still strong in oil, we see the price being continually pulled upward by demand and a declining dollar in 2011. Although there are some pullbacks when we see short-term dollar rallies, consumers should get used to over \$3 per gallon gasoline.



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Fixed Income

Monitoring fixed income has become more important as yields have dropped and investors seek new sources of higher income. This past quarter we did an extensive review of client accounts for duration (measure of volatility), credit quality and yield, as the hunt for yield has driven investors into more speculative issues of lower credit qualities. Over the past year we have reduced exposure to the high risk areas of the bond market and focused on higher credit qualities. While this reduces overall income to an investor, it is more important to preserve the capital base than to speculate on risky issues.

We have seen yields on treasuries pull back this quarter as investors find safe havens in the dollar and US Government debt. On an interesting point, we are seeing the shorter maturities continue to pull back but the longer maturities are making a move back to their values at the beginning of the quarter. One can use the movement to summarize that the markets are worried short to medium term, but the 4% yield to some is attractive enough for investors to lockup money for 30 years despite inflation worries in the future.

IN SUMMARY

Market Theme – Shaken Confidence

First, we couldn't pass on reporting that the biggest news of the quarter was not financial. It was the news that Osama bin Laden had been killed by the United States. It was welcome news to be sure and provided a fitting end to the month of April which had a positive gain for the markets. Stocks had logged their best first quarter in more than a decade, so the continuation in April gave a boost to investor confidence. Still all was not rosy for the second quarter. The normal culprits were still lurking about with unemployment unexpectedly rising at the end of May, housing still struggling (despite record low interest



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rates), and an ineffectual Congress still trying to grapple with the debt ceiling. You could not blame investors for heading for the exits, before they headed to the beaches, by taking some profits and calling it a day.

We opened this piece with a nod to the “Four G’s” which have a huge impact on investors and the marketplace. Growth is the key to moving the economy forward and to that end we think the free market has the ability to deliver. There are some structural issues that continue to drag on economic growth such as housing prices, limits to employee mobility (i.e. can take a new job across the country if you can’t sell your house) regulatory uncertainty and stubborn high unemployment. Government spending is ending with the final purchases through the QEII program from the Federal Reserve, so that impact has yet to be felt (if there will be anything to feel from it).

Consumers, like businesses, want certainty in order to make proper investment, spending and capital allocation decisions. Give the economy some clarity as to the “Four G’s” and this economy will start moving forward at a better pace than what we have seen in the recent past. In advance of the summer holidays, consumers and businesses have drawn in their risk appetites in exchange for waiting for resolution to several sticky issues. Long-term, corporate profits look good as does the prospect for a better economy.

Portfolio Monitoring: With the end of the Fed’s spending program, a looming budget battle, European debt issues and a stumble in the economy recovery, the prudent portfolio allocation has been conservative. Balanced portfolios consisting of equities, bonds, real estate, cash and commodities have done well during the economic turmoil of the past few years. When the market is running full-steam ahead it seems like a losing proposition, but when the market is falling, it’s comforting to know that diversification does work.

More importantly we know that markets are cyclical and to gain a consistent upward trend of portfolio wealth you need to protect the base of your capital. Having been in the business long enough to have witnessed an unprecedented bull market (1995-1999); an equity bubble burst (2000-2002) and a credit collapse (2007-2008), avoiding big losses in the portfolio is more important than squeezing the last dollar out of a bull market. So, in times when the economy seems a bit rocky, owning good quality securities inside of a well-balanced portfolio will provide a cushion to the ups and downs we are experiencing.

Manager Monitoring: There are two managers we are monitoring at this time....Ken Heebner of the CGM Focus and Bruce Berkowitz of Fairholme. Both funds have been in the news for their concentrated, high stakes bets they take with their portfolios. While they have been on the losing end of several trades, the long term view suggests these gentlemen are talented investors. Because of their concentrated nature, we have these funds in very small quantities in client accounts. One manager, Manning and Napier, announced it was going public this quarter. After a conversation with our contacts there we came away with the impression that this would not be “material” to the firm. The majority owner is using this IPO to conduct some estate planning. We continue to monitor the managers running



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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.

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 and short-term tax exempt 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 second quarter of 2011 seemed less than ideal for stocks. Through the end of April, however, the markets had not experienced a negative month since August 2010. So it was inevitable that we would have some type of market correction in order to shake out speculators who seek to take advantage of those investors who lose sight of market fundamentals. In the end, investors own equities because of profits and on that measure, the S&P 500 index trades at approximately a 13 price/earnings ratio as of the end of the second quarter 2011. Looking forward, the 2012 estimated price earnings multiple is 11.82, as reported by Standard and Poor's. Clearly, investors who are looking at the long-term should see some historically good values on a P/E comparison.

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