Integer Wealth Advisors Group, LLC

Advise, Guide and Protect

Third Quarter 2011 Market Commentary

Here is an excerpt from our last quarter commentary:

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.

The third quarter was the worst quarter since 2008. It was, by all accounts, one of the more volatile in recent memory, especially with the downgrade of the United States to "AA". The week following the downgrade had markets moving in such wild swings that investors surely felt it was a revisit of 2008. Despite the relatively calm markets of the last few weeks the "Four G's" still dominate the investment landscape. Greece is still in the news, "grease" is still an option for the Federal Reserve, Government is now trying to hammer out the debt issue with the "Deficit Reduction Committee" and Growth is still lacking in both the GDP and jobs.

Some reports suggest the economy is making progress, while others imply the opposite. Data like consumer credit and manufacturing reports show that the economy is growing, but slowly. "Softer" data that is more qualitative and largely sentiment-based, such as consumer confidence and small business sentiment, point to broad economic weakness. Ask friends and acquaintances if "they feel better today than four years ago"? We would wager, in the aggregate, that the confidence of consumers and businesses trumps any good "hard data" news that might suggest a slight upturn.

Unfortunately, during the quarter there wasn't a lot of good "hard data". The August jobs report was not encouraging, but also not necessarily indicative of an economy that is slipping into recession. The report showed no change in nonfarm payrolls while the unemployment rate held steady at 9.1%. Another interesting item showed the labor participation rate inched up from July's reading of 63.9% to 64.0%. We said it before, the economy needs new jobs, and the lack of job growth in August was a clear negative. The uptick in labor force participation suggests that some unemployed workers became less discouraged and resumed their job search, which is supportive of an improving outlook.

Provided below is a snapshot of the broad indexes and capitalization/style box performance. The strength in the S&P index came from the more defensive sectors utilities, consumer staples and healthcare.

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DOMESTIC EQUITIES

Index	Returns for the Quarter	YTD
S&P 600 Small Cap	-20.1%	-14.51%
NASDAQ Composite	-12.9%	-8.95%
Dow Jones Industrial Average	-12.1%	-5.70%
S&P 500 Index	-13.9%	-8.68%

(Returns are without dividends. Period Ending 9/30/2011)

Company	Percentage Weight	Year to Date 2011
S&P 500		-8.68%
Energy	11.63%	-12.62%
Materials	3.36%	-22.98%
Industrials	10.27%	-16.11%
Consumer Discretionary	10.65%	-6.77%
Consumer Staples	11.68%	1.03%
Health Care	12.14%	0.81%
Financials	13.59%	-25.94%
Technology	19.44%	-6.52%
Telecommunications	3.29%	-5.22%
Utilities	3.97%	7.17%

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

Style Return Box for the Third Quarter 2011

	VALUE	CORE	GROWTH
LARGE	-16.32%	-13.87%	-11.57%
MID	-20.96%	-19.89%	-18.87%
SMALL	-20.04%	-19.83%	-19.64%

Information provided in the above chart represents the quarterly returns of the S&P indexes of iShares Class of funds.

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INTERNATIONAL

The European sovereign debt saga continues to put downward pressure on local economies and the global economy at large. It really is all about Greece at this point in time. The situation is very fluid and no one can predict the future outcome. While policymakers in Europe have taken unprecedented actions in an effort to stabilize the markets and prevent a contamination of the core of Europe, the effectiveness of these actions remain uncertain, and execution risks remain high. We hold the opinion that Greece will have to go into default which will force European banks to "take a haircut" in their holdings. Regardless of the money that will be thrown at Greece to stave off the day of reckoning, the pressures are too great. It is better to "wipe the slate clean" and get on with the business of recapitalizing any banks that will need it as a result of the default, and take the medicine that such a default might bring to the equity markets. It will be painful, for sure, but much like the sting of the needle that injects the antibiotic, the short term pain will be worth the longer term gain of economic certainty in the area.

Outside of Europe, economic growth in both developed and emerging economies is slowing. Growth in India's gross domestic product slowed to 7.7% in the second quarter compared with an 8.8% expansion in the same period a year ago. Like China, there are signs that aggressive monetary policy tightening efforts in India are taking hold. Overall, global economic growth is likely to remain under pressure for the foreseeable future.

The Economy – Sputters Along!

EMPLOYMENT

According to the Department of Labor, "JOLTS" report (Job Openings and Labor Turnover) there were 3.1 million job openings at the end of August 2011. The problem with filling them is the technical skill level that is absence in our labor force. Employers report they cannot find workers with the right skill set. And for those that have a skill that is in need, chances are they are upside-down in their home and cannot sell to move to where the jobs are. This restriction in the flow of labor is a problem that won't be solved quickly. Retooling for new job skills and mobility issues continue to be a drag on unemployment. Low mortgage rates should spur those seeking a home to move from a rental unit to home ownership, however, the problem here is stricter lending limits for the borrower. One way to solve this issue would be for banks to work with borrowers who have jobs but may have a low credit score due to factors beyond their control. We are not bankers, and we don't want to encourage feckless borrowing that started this whole mess, but we suspect the borrowing "pendulum" has swung too far the other way and is impacting the jump start a housing revival.

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INFLATION

Over the 12-month period ending in August, the headline U.S. Consumer Price Index (CPI) rose 3.8%. This compares to a 2% year-over-year advance in the core CPI measure, which excludes food and energy prices. In the United States prices have risen fairly steadily so far this year and that may be in conjunction with an increase in certain money supply metrics. We also must consider "silent inflation" which goes by the moniker of smaller units with the same cost. Consumers probably first saw this in coffee, that now comes in 13 ounce packages, same for pasta (13 ounces), and other food stuffs. The price may not have increased, but the portions have gotten smaller. So, we may not have rampant inflation to the extend we thought would occur several years ago thanks to QE I & II, but it does have ways of showing up for the consumer.

Overseas, CPI figures suggest that price levels are moderating in certain emerging markets. For example, growth in China's headline CPI slowed to 6.2% year-over-year in August. The slack in the global economy, concentrated in developed markets, is keeping inflation in check. Emerging markets may still struggle with rising prices as the flood of global liquidity generally finds its way to these markets. Investors flush with capital seek to invest in fast growing markets that are the hallmark of the emerging world. Prices and speculative invests drive the demand for raw materials at a greater pace than might otherwise be expected in a normally developing emerging economy.

Fixed Income

With the inception of "Operation Twist", the Fed's attempt to bring down the long end of the yield curve, investors have little room to maneuver to capture better yields. With the yield curve flattening, meaning the long end of the curve yields just slightly higher than the short end of the curve, there is not much left to gain in terms of "going out on the curve". When we are in this position we focus on quality and move the maturity as close to the mid-point of the curve, generally around 4-5 years. High yield low credit quality bonds, while still yielding well above quality rated bonds, do not offer a wide enough spread to buy that slice of the market.

We prefer to see the spreads widen to 800-1,000 basis points (8-10%), that way you are adequately compensated for the increased risk. Treasuries have been the spot in the market and simply defy all logic to have rallied as they have this year, especially when you consider that the 10-year U.S. Treasury bond yields below 2%, while the S&P 500 index provides a dividend yield of approximately 2.3%. Municipals, the bonds that were expected to see massive defaults in 2011, have not followed that playbook either. In short, fixed income has been the bright spot in a diversified asset allocation.

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IN SUMMARY

Market Theme – Slow Growth

The recent market volatility suggests investors are torn between a recession and slow growth; we come down on the side of slow growth. Caution and lack of confidence will restrain companies from expanding their capacity until the uncertainty of regulatory changes, the European crisis and the next elections will play out. Workers cannot retrain fast enough, or move quickly enough, to those locations that have jobs available. The fact that three million jobs remain unfilled in the United States suggests companies still see demand for products. Finally, should the United States ratify trade treaties with Columbia, South Korea and Panama, additional "stimulus" could hit the markets over the next 12 months via an uptick in economic activity.

Portfolio Monitoring:

The fourth quarter of each year is a good time for investors to revisit their portfolio allocations and tax loss harvesting opportunities. We will be making appropriate recommendations for our client portfolios, especially for clients looking for yield in their portfolios. Generating yield, in a low yield environment, will mean taking a look at the relationship of fixed income and equity. Any switch to higher yielding equities would have to be done with the understanding that an investor introduces more risk to the portfolio.

Manager Monitoring:

There are several managers that can be "swapped" out of the portfolio, and we will have those recommendations within the context of tax loss harvesting. There are a couple of managers that we noted previously, CGM Focus and Fairholme that will be replaced. At this time we do not have any other concerns with the mutual funds being used in client portfolios.

Equities:

Large cap U.S. equities have provided more stability than small cap stocks in the recent quarter with dividend paying stocks attracting more attention as fixed income investors search for yield. Investors seeking shelter from the volatility are willing to buy the big stocks with good dividends as a hedge to the downside. Owning dividends that might yield 3% simply means the investor is taking out a slight hedge on the value of their portfolio. International securities will regain some attractiveness as soon as the European credit crisis is resolved, unfortunately that is going to take a little longer. Evaluating the domestic stocks on a price earnings multiple, the S&P 500 is still relatively "cheap" when considering a P/E ratio for 2012 is estimated at 10.16 by Standard and Poor's. Assuming the stars align in Europe and the crisis passes, we could see the markets set-up for a very good rally through the rest of the fourth quarter.

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Integer Wealth Advisors Group, LLC

Integer Wealth Advisors Group, LLC

Atlanta Office:
3440 Blue Springs Road
Suite 403
Kennesaw, GA., 30144
(o) 770.974.2787

Philadelphia Office:
790 Penllyn Blue Bell Pike
Suite 203
Blue Bell, PA., 19422
(o) 215.643.6490

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