

# SMITH HAYES

## Financial Services

Second Quarter 2011  
Volume 3, Issue 2

### SMITH HAYES

Financial Services Corporation

Member FINRA & SIPC

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### Economic Worries Weigh on Investor Sentiment....

*Clinton Rushing, CFA, Vice President– Investment Strategy*

After posting solid gains during the first quarter of 2011, U.S. equity markets faced notable selling pressure during both May and June as macro economic worries and slower economic growth within the U.S. negatively impacted investor sentiment during the second quarter of 2011. A confluence of events provided significant headwinds to economic growth during the second quarter, including continued unrest within the Middle East, ongoing recovery efforts in Japan and fears over a debt-contagion within Western Europe.

Accordingly, three out of four major U.S. equity indices closed lower during the latest quarter, including the Russell 2000, which posted the largest quarterly decline during the second quarter of 2011. The S&P 500 Index declined by 0.39% during the latest quarter, but has advanced by 5.0% through the first half of 2011. Meanwhile, the Dow Jones Industrial Average gained 0.77% during the second quarter, thereby adding to the Dow's year-to-date gain of 7.2%.

During the second quarter, economic growth within the U.S. economy moderated according to several measures as a number of different factors led to lower levels of growth within both the manufacturing sector and labor market. However, recently, the Institute of Supply Management's report on manufacturing activity provided a bit of reassurance that recent weakness seen within the sector represented transitory weakness rather than the beginning of a more long-lasting decline.

### Second Quarter 2011, Market Data Overview.....

Market Indicator	03/31/2011	06/30/2011	2Q 2011 Change	YTD Change
S&P 500	1325.83	1320.64	-0.39%	5.0%
Dow Jones Industrial Average	12,319.73	12,414.34	+0.77%	7.2%
NASDAQ	2781.07	2773.52	-0.27%	4.5%
Russell 2000	843.55	827.43	-1.91%	5.6%
EAFE	1702.55	1708.08	0.32%	3.0%
10-Year Treasury Yield	3.472%	3.161%	-0.31%	-0.31%
Gold	\$1,439.90	\$1,502.80	+4.4%	5.7%

\*Market Returns Calculated From Bloomberg Information & Exclude Dividends

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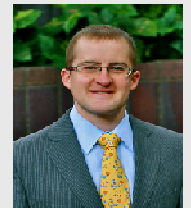
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### The Halftime Report....

Clinton Rushing, CFA, Vice President– Investment Strategy

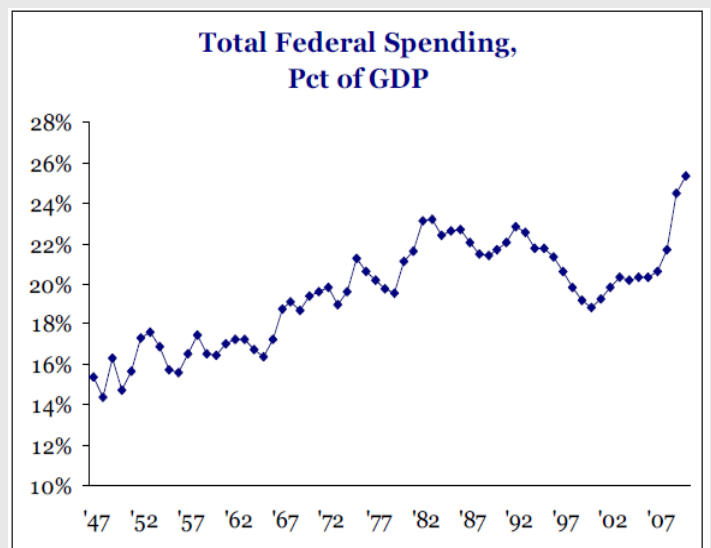


At the end of 2010, we highlighted several market and economic data points that we believed would be important in terms of providing additional color in regard to the health of the economic recovery both here within the U.S. and abroad during 2011. As a reminder, these four data points included the trends within the U.S. labor market, the movement of interest rates, political developments within Washington, D.C. and retail sales trends. As we stand at the half-way point of 2011, we thought it would be constructive to provide an update on several of these market factors, especially in light of renewed fears over a double-dip recession during the second-half of 2011.

**U.S. Labor Market–** After ending 2010 at a rate of 9.4%, the unemployment rate has approximated 9.0% thus far during 2011. While the overall economy witnessed decent job creation during the first several months of 2011, job additions have stalled out the past several months as corporations continue to look for higher levels of productivity from their existing workers. Additionally, ongoing uncertainty from Washington D.C. in regard to future tax rates and legislative actions have also weighed on job creation at the small-business level. While the unemployment rate is a lagging economic indicator, its importance in terms of consumer confidence is obviously quite high.

**Interest Rates–** Heading into 2011, better levels of economic growth were expected to lead to higher levels of interest rates. However, as economic growth has moderated a bit during the past several months, interest rates actually moved lower during the second quarter when compared to the first quarter of 2011. Furthermore, investors have also continued to accept low interest rates on U.S. Treasuries in response to debt worries within Western Europe. Still, it's tough to believe that the low interest rate environment we see today will last for much longer given continued economic growth and expected higher levels of inflation.

**Political Developments–** Arguably, one of the biggest factors weighing on investor sentiment during the second quarter was in regard to debt fears within both Western Europe, as well as the U.S. As the chart to the right depicts, our nation is likely to face a combination of austerity measures and higher taxes during the coming years in order to bring our finances back in line with prudent levels. In the near-term though, Wall Street will continue to monitor ongoing discussions in regard to the debt-ceiling, as well as expected budget cuts across a number of different programs.



Source: Strategas Washington Research Team

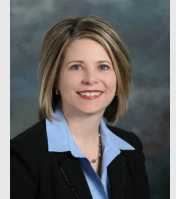
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### Investing Abroad From Your Own Backyard ....

*Susan Koesters, JD, Investment Consultant*



Have you ever heard the saying, “You can’t have your cake and eat it too”? Some may have this same sentiment trying to be conservative while investing internationally. Statistics show that Americans have historically preferred to invest within their own borders, probably due to a higher familiarity with U.S. companies, products, currency and markets. However, there is a way to share in the forecasted growth outside of the United States with some peace of mind. Investors who limit their investments to the U.S. may miss out on attractive investment opportunities around the globe. And whether we recognize it or not, just about all investors today are global investors given the importance of economies outside the United States to the success of U.S. companies.

The middle class in areas outside the United States has grown and is expected to continue to grow at a significant rate. It is estimated that nearly 90% of the GDP growth worldwide in the six-year period ending in 2015 will be generated outside the United States, with China and India contributing more than one-third (Source: The Capital Group Companies, The WDI database & IMF WEO database). In the past, much of the world’s population found it challenging to meet basic needs like food, shelter and water. Instead of struggling to survive, the increased middle class of these foreign economies are improving their hygiene and buying fast food, popular soft drinks, household appliances and other products many of us take for granted.

Investing directly in stocks or bonds of foreign companies involves additional risks. For example, most foreign nations do not require and/or enforce uniform accounting principles. As a result, reviewing a foreign company’s financial reports can be troublesome. In addition to accounting, there are some other safeguards that we take for granted in the U.S. that are not the case in other countries. For example, the U.S. has a reasonably sound currency and a stable legal system. People might be concerned about some of these advantages currently. However, we must remember to think of our system relative to all the other alternatives/countries.

Because of this forecasted growth outside of the United States, many companies that are thought of traditionally as “American” are taking advantage of global opportunities. For example, a U.S. automaker dating back to 1903 now sells more of its vehicles in China than the United States. And, a popular fast food chain plans to double its number of locations in China by 2013. The leading soft drink maker in the world (headquartered in the U.S.) generates about 60% of its sales outside the U.S.

For those willing to accept and correctly navigate the risks of directly owning foreign based securities, the rewards might be great. But for those of us more conservative investors, we might sleep better when participating in the forecasted future growth in the world via ownership in quality, U.S. multinational companies (and the dividends are the icing on the cake!).

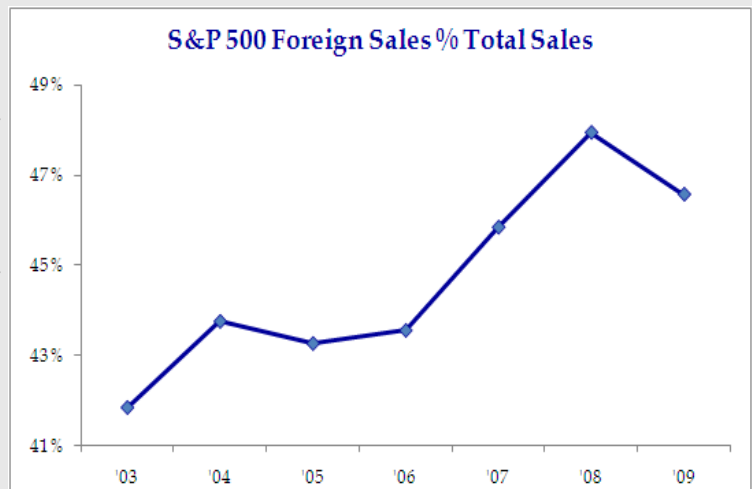


Chart Courtesy of Strategas Research Partners

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### A Primer On Variable Annuities.....

Matt Kleager, CFP, Investment Consultant



When markets experience a big decline, like they did in 2008/2009, many times we see an increase in the sale of annuities. Annuities usually offer “guarantees” that are not available in other investment vehicles, making them more attractive to potential investors during or immediately following market declines. That being said, I want to be clear that there are situations where annuities make sense for an investor trying to meet specific needs. My goal in this article is not to portray annuities as the “evil” product that some in the media would lead you to believe, but to equip you with some specific questions to answer prior to purchasing an annuity. We don’t want our clients and friends to be sold something they don’t understand or need! The following questions apply mostly to variable annuities with guaranteed living benefits, but some might also apply to fixed annuities.

- 1. Suitability.** Is this annuity right for me? How does this product fit my needs and objectives (objectives might include tax-deferred growth, guaranteed income, aversion to market risk, and/or a known death benefit)? Oftentimes, agents or brokers try a “one size fits all” approach to selling annuities. Some critics would say selling annuities this way is really the equivalent of handing out prescriptions in the absence of a diagnosis. It should be the other way around – first the diagnosis, then the prescription. The point being, we would recommend you work with a trusted advisor, one who thoroughly understands your unique situation.
- 2. Costs.** Specifically for annuities with guaranteed living benefits, ask the following:
  - What are the fees charged against the investment? What does each fee pay for?
  - Which fees are optional? What do they pay for?
  - What are the surrender (or early withdrawal) penalties?
  - What are the fee ranges?
  - How does the advisor/agent/broker get paid?
  - What are the investment options within the annuity and what do they cost?
- 3. How Does the Annuity Work?**
  - What exactly is the guarantee? Is it a withdrawal stream of income based on the value of the account or a “minimum withdrawal base” or is it an actual dollar value I can withdraw?
  - What if I need more than the guaranteed withdrawal amount in a given year? What happens to my guarantee?
  - What if I need to make a withdrawal prior to starting my income stream? What happens to my guarantee?
  - What is the withdrawal amount for two lives instead of just one (if you’re married)?
  - It only makes sense to pay for a guarantee on a portfolio of investments that need protection. That said, can you confirm that this variable annuity allows for ample risk exposure? In other words, can I allocate 60% or 80% or 100% to equities?
- 4. Consider the Alternatives.** Before investing money in an annuity, consider the alternative ways of meeting your specific need(s). Ask the agent or broker what they think the alternatives would be to investing in the annuity to meet your need(s). If they say there aren’t any alternatives, you might seek a second opinion!
- 5. Assess the Risks.**
  - Are you comfortable with the credit risk and hedging program of the insurance company issuing the annuity?
  - Have you addressed the liquidity risks that typically come with annuities?
  - How does the annuity handle the risk of inflation – specifically when you’re talking about an income stream?

To be sure, there are plenty of other questions to ask. But this is a good start when you’re thinking about variable annuities with guaranteed living benefits. We encourage you to contact your SMITH HAYES advisor should you want to explore any of these topics further. We are here to serve you!

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### SMITH HAYES Professional Receives Alumni Merit Award....

This past May, Creighton University bestowed its prestigious Alumni Merit Award on our very own, Dan Semrad, Vice President. The award was based on several stringent criteria, including having provided distinguished service to the University and to his/her own community coupled with a way of life that clearly exemplifies the Creighton University Credo. In addition to being the featured speaker at the hooding ceremony for the MA and PhD candidates this past May, Dan serves on a number of different boards & task forces at the University, including The Deans Advisory Board for the College of Arts and Sciences, The Graduate School Advisory Board and the Ph.D./E.D.D. Curriculum Task Force. Additionally, Dan serves on a number of distinguished community boards as well, including The Ross Film Theatre, Audubon Spring Creek Prairie, and the Nebraska Appleseed Foundation. Dan is highly deserving of this award, as his dedication to both Creighton University and the communities of Nebraska



Father John Schlegel, S.J., Dan Semrad, Dr. Gail Jensen, Ph.D

have helped to make a substantial difference in the lives of many people within our state.

### Exciting Changes to SMITH HAYES' 2011 Nonprofit Symposium!!

SMITH HAYES is extremely excited to announce that this Fall, we will be partnering with the Nonprofit Association of the Midlands ("NAM") to once again provide an information-packed and content-rich event for the nonprofit community.

As you may know, each of the past two years SMITH HAYES has held our **Nonprofit Organizations Best Practices Symposium Event** during the Fall season. This year we will be combining our event with NAM's **Nonprofit Summit of the Midlands Event**. The combined event will continue to be known as the **Nonprofit Summit of the Midlands** and will be held on **Thursday, October 13, 2011 at the La Vista Conference Center, in La Vista (Omaha), Nebraska**. This combination of talent, expertise and resources will allow us to provide an even wider depth and breadth of topics to our attendees.

The theme for this year's event is "**Leadership by Design**" and while there will be a variety of presenters, we are happy to announce that Dr. Peter Frumkin will once again be the keynote presenter. Dr. Frumkin's morning session will be on the groundbreaking subject of Design Thinking for Social Innovation. Whether you've had the opportunity to hear Dr. Frumkin in the past or will hear him for the first time at this year's Summit, you will be engaged, informed and energized.

Information on how to register for the event will be coming very soon, so make sure to mark **Thursday, October 13, 2011** on your calendar.

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