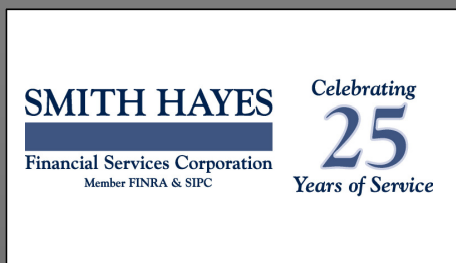


# SMITH HAYES

## Financial Services

Third Quarter 2010  
Volume 2, Issue 3



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### Stocks Snap Back to Life During Third Quarter....

*Clinton Rushing, CFA, Research Coordinator*

After posting notable declines during the second quarter of 2010, U.S. equity markets regained their composure during the latest three-month period of 2010 and went on to record solid gains. The month of September was an especially prosperous period for U.S. equity markets as the S&P 500 Index posted a monthly gain of 8.9% during September. According to Strategas Research Partners, this marked the second best September performance in the history of the S&P 500 Index, and was second only to the 14.4% gain recorded during September 1939.

On the economic front, a number of reports released during the third quarter continued to paint a picture of modest growth for the United States. While consumer spending advanced by a better than expected 0.4% during the month of August (U.S. Commerce Department), both the labor market and housing market continued to disappoint during the third quarter period. In particular, sales of existing homes declined by 19.0% during the month of August compared to August of 2009 (National Association of Realtors), while inventory levels continue to be extremely elevated relative to historical readings. Meanwhile, the unemployment rate at the end of August stood at 9.6% (Bureau of Labor Statistics). However, while labor market statistics continue to be rather sobering, hiring activity may begin picking up in earnest during 2011 due to strong corporate profits, excess corporate cash flow, greater regulatory visibility and continued growth in emerging markets.

### Third Quarter 2010, Market Data Overview.....

<u>Market Indicator</u>	<u>06/30/2010</u>	<u>09/30/2010</u>	<u>3Q 2010 Change</u>	<u>YTD Change</u>
S&P 500	1030.71	1141.20	+10.7%	+2.3%
Dow Jones Industrial Average	9774.02	10,788.05	+10.4%	+3.5%
NASDAQ	2109.24	2368.62	+12.3%	+4.4%
Russell 2000	609.49	676.14	+10.9%	+8.1%
EAFE	1348.11	1561.01	+15.8%	-1.3%
10-Year Treasury Yield	2.93%	2.51%	-0.42 basis points	-1.33 basis points
Gold	\$1,245.90	\$1,309.60	5.1%	+18.6%

Market Returns Calculated From Bloomberg Information

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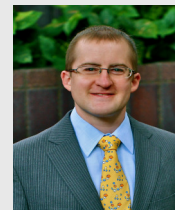
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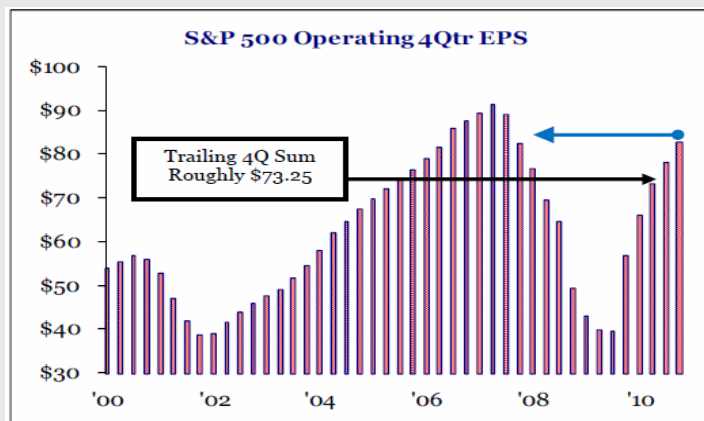
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### Signs of Optimism Within Corporate America....

Clinton Rushing, CFA, Research Coordinator



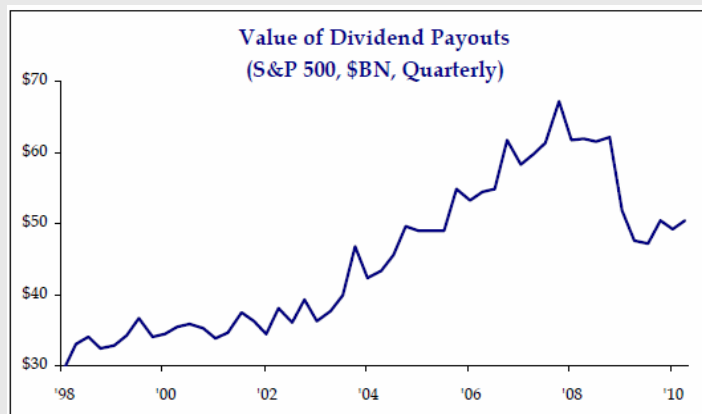
When meeting with clients, investment advisors are often asked about the things that they are most concerned about within the market or economy at any given point in time. But at the same time, it is also important to think about the things that make us enthusiastic about either the economy or the stock market at any given point in time as well. In other words, in the context of the current economic and market climate, there are certainly many factors to be concerned about, but increasingly, there are also a number of factors that may point to more prosperous conditions for the U.S. equity market in the not too distant future. Below, we feature several charts that depict some of the most encouraging signs we are currently seeing within the economy and equity market.



Source: Strategas Research Partners

ductivity have also helped to explain a notable percentage of the increase witnessed in corporate profit levels during the past several quarters. Looking forward, as economic activity continues to recover around the world, corporate profits are likely to continue rising, which bodes well for cash flow, employment and dividends. On this last point, a number of companies have recently announced sizable increases to their quarterly dividend rates in what is clearly good news for investors seeking income from their investments. Similar to corporate profit levels, dividend payments are likely to continue to grow as the global economy shows further signs of strengthening during the coming quarters.

After declining precipitously during the second-half of 2008 and first part of 2009, U.S. corporations have witnessed a notable improvement in their overall level of earnings during the past few quarters. While some people would suggest that much of the improvement in profits has resulted from cutting jobs, the improvement in corporate profits has also resulted from a number of other factors as well. For instance, emerging economies within areas such as Latin America, Asia and Eastern Europe continue to witness notable economic growth, which in turn, has helped to increase corporate profit levels. Also, technological innovation and worker pro-



Source: Strategas Research Partners

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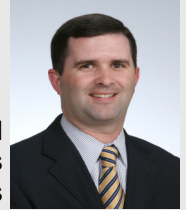
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### Unlocking the Secrets of Retirement Income Planning ....

*Matt Kleager, CFP®, Investment Consultant*



Picturing yourself as a retiree may be hard if not impossible (if you're not already retired!). But, I would imagine that if you could envision those future years, you'd probably see a life full of activity and decades of health, happiness, and prosperity. The issues related to health care and your financial resources would not be an issue until long after you've retired! The reality, however, is probably somewhere in between. That being said, as you begin thinking about your retirement income plan, one of the many important questions you have to answer is, "where is my retirement 'paycheck' going to come from?" Shifting your mindset from asset accumulation to asset distribution becomes increasingly important – and challenging!

During our working years, we all become accustomed to receiving a paycheck on a regular basis. Our life in retirement should be no different. Our retirement "paycheck" might come from sources such as Social Security, pension benefits, personal savings and investments, company-sponsored retirement plans, and for some, part-time or full-time employment. Retirement income planning seeks to overcome the risks and challenges of establishing a financially secure retirement, to provide a framework for future spending, and to transition assets into reliable, secure income streams that will last a lifetime.

Retirement income planning is a topic that everyone should consider – no matter your age. For younger Americans, the responsibility for building your nest egg increasingly lies with you. Social Security represents only a fraction of the typical retiree's income. Therefore, younger people (I'll loosely define this as those between 20-40) need to focus on *how much* they should be saving and investing in order to reach their retirement income goals. Those middle-aged people (loosely defined here as those between 40-60) need to focus on proper asset allocation and diversification (both from an investment and tax perspective). Additionally, as you begin thinking about how much you'll need to save, you may be startled to learn the impact of inflation. Planning for an ever-increasing annual income need is vitally important to the planning process. You'll also have to consider factors such as taxes, the likelihood of increased medical costs and health insurance costs, and the possibility of long-term care. Addressing these topics many years before retirement might help you answer the question, "am I headed in the right direction?" If retirement is not in your immediate future, we want to help you address these issues while we have time to react and adjust, if necessary.

Most people that are very near retirement are probably wondering if they have saved enough to retire comfortably. For those already in retirement, the question may take another form – have they saved enough for the income to last throughout the rest of their lives? Providing reliable, secure income streams that will last a lifetime is a vitally important topic to be addressed during this stage of planning. Research has shown that only 37% of workers are covered by a pension plan with their current or former employer.\* Considering this fact, and as fewer companies offer pension plans, the likelihood of securing a pension to provide retirement income is decreasing. As a means of addressing this issue, clients and their advisors should discuss the role an annuity might play in providing the retirement "paycheck." If you are near or in retirement, we want to help you find answers to the following questions (possibly among many others): when can I afford to retire, how much money will I need, when should I start drawing Social Security, how long will my money last, how should I have my money invested during retirement, in what order should I withdraw my money, and/or what risks do I face.

At SMITH HAYES, we are committed to helping our clients accumulate wealth, but on the flip side of that coin, we are also committed to helping our clients implement a thoughtful retirement income plan for the "distribution phase" of their life. Please contact your SMITH HAYES professional if you'd like to explore any of these topics further.

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\*Employee Benefit Research Institute, 2010

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### Remembrances of Things.....To Come

*Brad Knuth, Senior Vice President*



Just as SMITH HAYES is celebrating its 25th year in business, 2010 marks my 25th year in the investment business as well. I charged out of college with an intellectual excitement to spread the word to all potential prospects that the U.S. stock market had all the underpinnings of a sustained rise in share prices. Of course, at the age of 22, I had no idea that I would run into one of the most powerful forces in the universe.....inertia. Nobody cared. Didn't I know that America's best days were behind it?! Sure, Ronald Reagan was reducing the burdens of high taxes, high interest rates, and regulation, but it was all too little, too late. Didn't I know that OPEC had our nation in the grips of its monopolistic power?! Didn't I know that the Japanese model of business would clearly usher in a new dominance by an Asian power with whom American companies had no chance to compete?! It was a daunting task, getting started in the investment business, and a real education in what is now known as behavioral finance.

I have often told younger people that our role is part investment manager, part economist, part sociologist, part teacher, part psychologist. Over the last twenty five years as an investment consultant, I have witnessed three bull markets, three recessions, one severe but brief crash, the longest bear market since the 1970s, three wars, and six Presidential elections. Of course, the advice we give each client is uniquely suited to that client and his/her financial situation and risk tolerance. But as it relates to the current market environment, I feel like I'm "regressing" back to my early days in the business when the most important advice I could give investors was "Buy high quality stocks and be patient."

Clearly our nation has structural hurdles to overcome. Our nation's fiscal discipline has eroded over a number of Administrations and Congresses. Our companies face vigorous competition from emerging market-based competitors. Our legal system, designed to protect fundamental property rights, has become a serious burden to our system through reckless, lottery-style tort actions. And, in our own industry, some of the largest and best known investment banks have behaved in a way unbecoming a "standard of care and duty" expected of an important component of our capitalist system.

Yet, here in 2010, the U.S. stock market sits at the most attractive valuation levels since I entered the business. Earnings multiples sit well below historical levels while dividends on many companies exceed the 10-Year Treasury yield. Cash on the collective balance sheets of the S&P 500 sits at 55-year highs. Our multi-national corporations, who've invested much time and many dollars extending their global reach are just now beginning to reap the rewards of those efforts. And American creativity and ingenuity is alive and well in our universities and young people. There is what I call a "beautiful math" to equity investing; that is, if equity values are low enough, then stock buybacks and dividend increases have a higher impact on future stock prices than when multiples are high. These strategies are being deployed in earnest by U.S. corporations and are important factors in a return to normal, historical rates of return.

When I entered the business those "few short years ago," nearly half the world's population lived under the thumb of an autocratic regime. The 1990s taught a lot of bad habits about investing, while the 2000s brought the public's very belief in investing under question. With our nation having endured a nearly three year period of recession or very slow growth, it is quite fashionable to be negative on the economy and financial markets. I don't ascribe to that view any more than I did in 1985. I look for this country to realign its economic course, for American companies to continue to excel at home and abroad, for the American consumer to emerge from this malaise with a stronger financial household and better savings habits, and I would suggest that a strategy of buying and holding a portfolio of high quality companies will reward the patient investor.

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### SMITH HAYES Community Involvement Update....



The latest quarter was filled with several events for the SMITH HAYES Action Team. The City of Lincoln had the honor of hosting the Special Olympics USA National Games. Over 2,800 athletes, 1,000 coaches, 30,000 spectators and 8,500 volunteers came together for seven days of competition across several sports. SMITH HAYES stepped up to the plate to make this event happen by providing corporate sponsorship and many hours of volunteering from SMITH HAYES employees. It was a fantastic event for the city and most importantly, for the many athletes and their families who gathered in Lincoln in the spirit of competition.



The SMITH HAYES Action Team also had a great turnout for the annual JDRF Walk in Omaha. Juvenile diabetes hits close to home for SMITH HAYES and we were proud to show our support for continued research and to the many kids that are challenged by this disease. Over 4,500 registered walkers attended this year's walk to cure diabetes.

In addition to these two large events, the SMITH HAYES Action Team was also involved in numerous other activities during the past several months. For instance, several employees of SMITH HAYES showed their support for the Lincoln Lighthouse, as they hosted their "Rock the Block" annual fundraiser. Congratulations to the Lighthouse for celebrating 20 years of doing great things.

Furthermore, the Lincoln office also helped the Food Bank by completing a very successful food drive. Many food items were donated along with a meaningful cash donation. In Omaha, the Corporate Cycling Challenge was another huge success, with over 4,200 cyclists participating. SMITH HAYES supported several riders this year and helped raise money for the event's worthy causes.



The Lincoln Chamber of Commerce recently awarded SMITH HAYES its Cornerstone Award at the 15th Annual Celebrate Business Awards Luncheon. The award is presented to the company whose entrepreneurship and skill endeavor has added to the economic base of the community and provided for others to work and live in Lincoln. We are very proud to have received this award and everyone at SMITH HAYES will continue to strive to make our Nebraska communities even stronger.

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