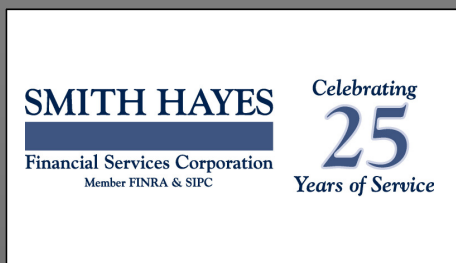


SMITH HAYES

Financial Services

Fourth Quarter 2010
Volume 2, Issue 4



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Stocks Post Solid Gains During Fourth Quarter....

Clinton Rushing, CFA, Vice President– Investment Strategy

U.S. equity markets witnessed sizeable gains during the fourth quarter period of 2010 as the U.S. Federal Reserve came to the aid of the economy and the stock market by embarking upon another round of quantitative easing. The Fed, in an effort to spur economic activity, announced plans this past November to purchase an additional \$600 billion of Treasury securities by the end of the second quarter of 2011.

While the Federal Reserve came under increased scrutiny following the move, Wall Street responded favorably, as stocks moved notably higher during the final three months of 2010. In particular, the S&P 500 Index gained 10.2% during the fourth quarter of 2010, bringing its year-to-date gain to 12.8%*. Small cap stocks performed even better during the fourth quarter, as measured by the performance of the Russell 2000 Index. During the latest quarter, the Russell 2000 Index advanced by 15.9%, bringing its year-to-date gain to a notable 25.3%.

Meanwhile, on the economic front, the overall economy continued to make modest progress on several fronts during the fourth quarter. Consumer confidence reached its highest level in six months during the month of December (University of Michigan/Reuters Consumer Sentiment Index), while retail sales increased by a better than expected 0.8% during the month of November (U.S. Commerce Department). As we move into 2011, the job market remains priority number one for both investors, and politicians, as better hiring trends may lift stock prices higher during 2011.

Fourth Quarter 2010, Market Data Overview.....

<u>Market Indicator</u>	<u>09/30/2010</u>	<u>12/31/2010</u>	<u>4Q 2010 Change</u>	<u>YTD Change</u>
S&P 500	1141.20	1257.64	10.2%	12.8%
Dow Jones Industrial Average	10,788.05	11,577.51	7.3%	11.0%
NASDAQ	2368.62	2652.87	12.0%	16.9%
Russell 2000	676.14	783.65	15.9%	25.3%
EAFE	1561.01	1658.30	6.2%	4.9%
10-Year Treasury Yield	2.51%	3.295%	+0.785 basis points	-0.54 basis points
Gold	\$1,309.60	\$1,421.40	8.5%	28.4%

*Market Returns Calculated From Bloomberg Information & Exclude Dividends

1225 "L" Street, Ste 200
Lincoln, NE 68508
402-476-3000
800-279-7437
Fax: 402-476-6909

10250 Regency Circle, Ste 400
Omaha, NE 68114
402-898-1700
866-865-1700
Fax: 402-392-7833

1553 27th Avenue
Columbus, NE 68601
402-564-1878
888-881-1878
Fax: 402-564-2753

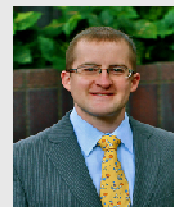
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Key Market Factors to Monitor During 2011....

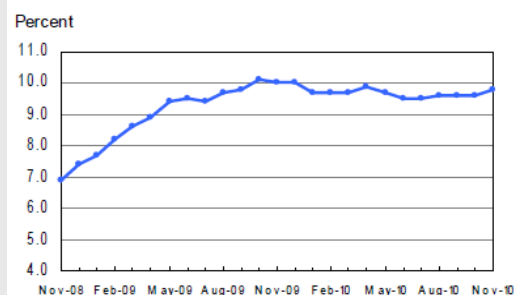
Clinton Rushing, CFA, Vice President— Investment Strategy



In addition to solid gains witnessed within the U.S. equity market during 2010, the economy showed signs of improvement on several fronts, including in regard to manufacturing, retail sales and consumer confidence. Offsetting these positive factors though was the fact that both the labor market and the housing market remained lethargic during much of 2010. Looking to 2011, investors will be looking for signs of improvement in regard to both the labor market, as well as the housing market. Furthermore, interest rate trends, retail sales activity and political changes in Washington, D.C. will also likely take center stage as well.

U.S. Labor Market— As we begin 2011, the labor market will remain front and center in terms of importance during the coming year. While the private sector added just 50,000 jobs during the month of November (U.S. Department of Labor), better job growth would certainly be welcome news for the U.S. economy and stock market during 2011. Furthermore, U.S. corporations may begin to add to their payrolls in a more meaningful fashion considering recent improvements in both consumer confidence and retail sales activity.

Chart 1. Unemployment rate, seasonally adjusted, November 2008 – November 2010



Source: Bureau of Labor Statistics

Interest Rates— Despite actions taken by the Federal Reserve this past Fall to keep interest rates at extremely low levels, market forces led to an increase in yields across several sectors of the market during the final months of 2010. Looking to 2011, investors will be on the look-out for a continuation of these trends, as a notable rise in interest rates would provide additional headwinds to the housing market, and several other sectors of the overall economy.

U.S. Retail Sales, 1992-November 2010



Source: Bloomberg Chart

Political Developments— The mid-term election results of 2010 signified that voters demanded change in Washington, and looking to 2011, the political climate is expected to be quite active once again. From an investing perspective though, the S&P 500 has not declined in the 12 months following a mid-term election since 1938 (Strategas Research Partner, LLC), which may point to further gains for stocks during 2011.

Retail Sales— Consumer spending increased by a better than expected 0.8% during November (U.S. Commerce Department) despite elevated unemployment. Looking to 2011, consumer spending may overtake peak spending levels seen during 2007 if labor market conditions show further signs of improvement during the coming quarters.

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(Over) Reaching For Yield

Russ Manners, Senior Vice President
Susan Koesters, J.D., Investment Consultant



As the economy continues to limp along, the Federal Reserve has gone to extraordinary lengths to reduce interest rates in an attempt to revive business activity. These policies have certainly helped borrowers, but they have also made it very challenging for those who rely on income from investments. To add insult to injury, those of us who thought we were reasonably prepared for interest rate swings by building “bond ladders” (consisting of short, intermediate and longer term bonds) have seen an overwhelming number of early bond redemptions as issuers rush to refinance at the new rock-bottom interest rates.

Unfortunately, when confronted with a world where the 3-year Treasury note yields less than 1% (Wall Street Journal, 12/17/2010) many investors are flocking to higher-yielding alternatives without fully understanding the underlying risks. In our experience, one of the most costly mistakes people make is “reaching for yield.” Often, this takes the form of overweighting portfolios with long term bonds, lower-rated (junk) securities, annuities with guaranteed minimum returns or higher-yielding equities that are highly sensitive to commodity price swings. A 7% yield today might sound very attractive, but it is extremely important to understand how this yield is achieved and what risks are involved. These risks could include rising interest rates, inflation or expenses. They might also involve steep penalties, illiquidity or even default. Of course, there are risks present in every investment, but we have noticed people have a tendency to suspend healthy skepticism when reaching for yield. When exploring the tough investment choices in today’s environment, we are reminded of an old Woody Allen quote: “We stand today at a crossroads: One path leads to despair and utter hopelessness. The other leads to total extinction. Let us hope we have the wisdom to make the right choice.”

So what is a reasonable person to do when trying to achieve a certain level of income in such an anemic interest rate environment when all possible living expenses have been pared down? We have an option that may surprise you. The now deceased (but forever wise) investor, John Templeton, was a proponent of maintaining a well balanced portfolio (including international equities) and paying out monthly income from the portfolio, even during some years when the return was not sufficient to cover the distributions. If some of you reading this grew up or had parents who grew up during the Depression, “spending principal” is a cardinal sin to be avoided at all costs! Nevertheless, we believe “Sir John” was correct in his thinking—that high quality securities chosen based on value and held over reasonable periods of time would ultimately best serve the needs of most investors, even if this means invading principal when income needs exceed portfolio returns. Over the long haul, the hope is that the years where return exceeds withdrawals will cover those years when it was the reverse. Today, a balanced portfolio of bonds with staggered maturities and stocks with dividends will most likely not generate as much as 4% in actual cash flow (a reasonable portfolio withdrawal rate in retirement). However, the chances for growth from equities and the ability to respond in the event of higher interest rates in the future tip the scales in favor of this option. It may seem counterintuitive to suggest that the occasional dip into principal is the more conservative approach, but we have found it is—especially when compared to the alternative of (here it comes again) “reaching for yield”. Remember that today it is not unusual for people to spend upwards of 20 years in retirement. It may be a long journey...make sure your portfolio is built to last.

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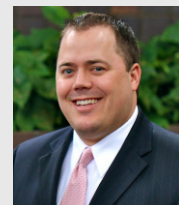
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Investment Resolutions For 2011.....

Jake McKee, J.D., Investment Consultant

As we ring in the new year, it is always wise to look back at lessons learned and of course, resolve to greater things in 2011. While I find some resolutions to be overwhelming (hitting the gym more), here are some financial goals that are very achievable and will help move you in the right direction.



Budget - Knowing what you spend is critical to saving the right amount. There are several ways to accomplish this and there are many tools out there that can help. For example, www.mint.com is a great website to help track spending and saving. It's free and it is so simple, everyone can use it.

Automatic Contributions – There is no better savings strategy than having automatic contributions go into your investment account. The “pay yourself first” concept is sound and successful.

Consolidate Accounts – Old 401ks, savings accounts, and IRAs can be floating out there and not getting the proper attention they deserve. In addition, most, if not all, accounts have fees associated with them and by streamlining you will most likely save some money.

Increase Your 401(k) Contribution – Many employers offer a matching contribution and many people don't take advantage of this opportunity. Go to your 401k website or HR rep and defer enough to pick up the full match.

Update Your Will & Estate Plan – These documents often go unchanged as your life evolves. Pull them out and make sure they reflect your objectives. Also, estate tax rules have changed and this may provide additional flexibility in transferring wealth to younger generations.

Check Your Credit Report – A solid credit rating is the key to accessing capital for any number of things and should be monitored carefully. You are entitled to a free credit report every year. You can learn more at this website: www.annualcreditreport.com

Review Insurance Policies – Nobody expects a disaster to occur in a given year, but we should always be prepared. Review life insurance coverage to make sure it is the appropriate amount. Meet with your property & casualty agent to make sure your house, car, and most importantly, liability coverage is where it needs to be.



Save For College – The best time to start to save for college is right now because that window of opportunity closes fast. Next thing you know, Junior is 10 and the time to save is more than half over. Plus, college is more expensive than ever with no signs of trending the other direction. Visit with your advisor about ways to save for college.

Review Portfolio Holdings – Meet with your advisor and make sure that you're on the right track. There are risks and opportunities around every corner.

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SMITH HAYES Celebrates 25 Years....

This past October we celebrated our 25th Anniversary at SMITH HAYES Financial Services and were very proud to host client appreciation events in each of our three locations, Lincoln, Omaha, and Columbus. These were a great opportunity to reflect upon what has given us our growth and to thank all of those that made it possible. I briefly want to share some of the highlights. First, I want say thank you to you, our clients. Some of you have been with us the entire time and still some are new this year. Much has changed in our business, the markets, and the process of investment advice over this period of time and we have risen to the challenge by remaining committed to our primary mission...putting our clients first. It is this commitment that has allowed us to earn your trust and for you to remain committed to us in return. Thank you.

Second, from the late Tom Hayes and me to our now 75 employees, I'm proud to come to work every day with an outstanding bunch of people. This is reflected in several different ways including investment consultants who are constantly becoming more knowledgeable in their craft, an operations group that strives to make each transaction accurate and convenient, and our compliance group that helps our investment consultants maintain a remarkably clean and ethical practice. Beyond the office, there are countless hours devoted to improving our communities through charitable organizations. It is all these folks that are charged with giving you a great experience from the time you enter our door. Thank you to all of the SMITH HAYES family.

Our business has changed. 25 years ago it was more about gaining "access" rather than "advice" about investments. However, this is changing with technology, and advice is quickly becoming more and more important. Our investment consultants are in an ideal position for this shift, as "advice" is our strength and will continue to differentiate us from others. We will continue to be leaders in public finance underwriting (tax-free bonds), retirement plans, nonprofit investment management, and individual wealth planning. If we can help you more in these areas, please let us know.

While the past several decades have presented each of us with an ever expanding universe of investment options and market cycles to navigate, some things haven't changed one bit. Today, just like 25 years ago, SMITH HAYES is strong, and more poised than ever to meet the challenges of tomorrow. We smile back on the first 25 years and anxiously await the next 25. We have enjoyed the relationships we have built and will continue to put our clients first.

Again, on behalf of the company, thank you for your business.

Tom Smith
Chief Executive Officer



Tom Smith & Adam Hayes (Son of Tom Hayes) at the 25th Anniversary Celebration



Clients & SMITH HAYES Investment Consultants Gather at The Sheldon Memorial Art Gallery in Lincoln

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