SMITH HAYES Financial Services

First Quarter 2010
Volume 2, Issue 1

SMITH HAYES
Financial Services Corporation
Member FINRA & SIPC

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Stocks Start off 2010 With Additional Gains….

Clinton Rushing, CFA, Research Coordinator

Following the gains recorded within the U.S. equity markets during 2009, stock prices continued to move higher during the first three-month period of 2010. In terms of the specifics from the latest quarter, the S&P 500 Index posted a gain of 4.9% during the first quarter of 2010, while the Dow Jones Industrial Average advanced by 4.1% during the first three-month period of 2010. The Wall Street Journal noted that the Dow's 4.1% gain represented the best first quarter performance since 1999. The Russell 2000 Index posted a very notable gain of 8.5% during the first quarter period, while international stocks, as measured by the EAFE Index, were relatively unchanged during the first quarter of 2010.

Similar to the second half of 2009, several economic indicators seemingly pointed towards a continued economic recovery within the U.S. during the first quarter of 2010. In particular, despite the fact that the unemployment rate remained elevated versus historical levels during the first quarter of 2010, consumer spending continued to show signs of improvement. The U.S. Commerce Department reported during the final week of March that Personal Spending increased by 0.3% during the month of February, which followed a 0.4% increase in Personal Spending witnessed during January. Incidentally, the latest increase in spending activity represented the fifth consecutive increase witnessed in regard to Personal Spending within the U.S. (Bloomberg).

First Quarter 2010, Market Data Overview…..

Market Indicator	12/31/2009	03/31/2010	1Q 2010 Change	YTD Change
S&P 500	1115.10	1169.43	+4.9%	+4.9%
Dow Jones Industrial Average	10,428	10,856.60	+4.1%	+4.1%
NASDAQ	2269.15	2397.96	+5.7%	+5.7%
Russell 2000	625.39	678.64	+8.5%	+8.5%
EAFE	1580.77	1584.28	+0.2%	+0.2%
10-Year Treasury Yield	3.839%	3.828%	-0.11 basis points	-0.11 basis points
Gold	$1,098.80	$1,114.50	+1.4%	+1.4%

Market Returns Calculated From Bloomberg Information

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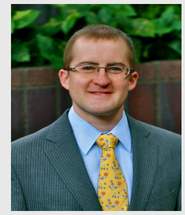
Cautionary Signs for Bond Investors….

Clinton Rushing, CFA, Research Coordinator

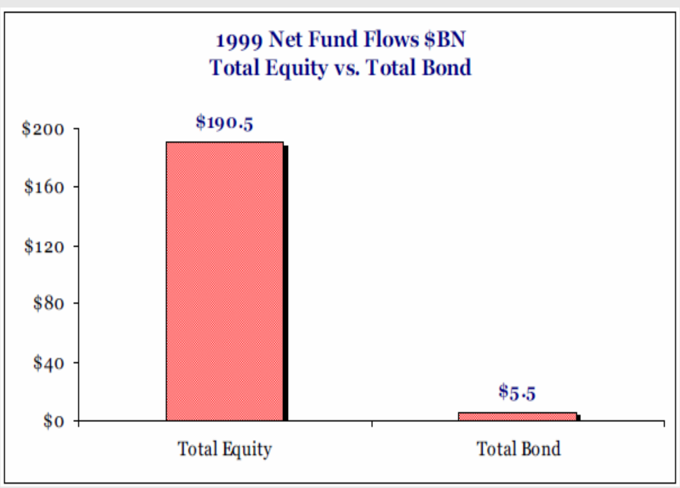


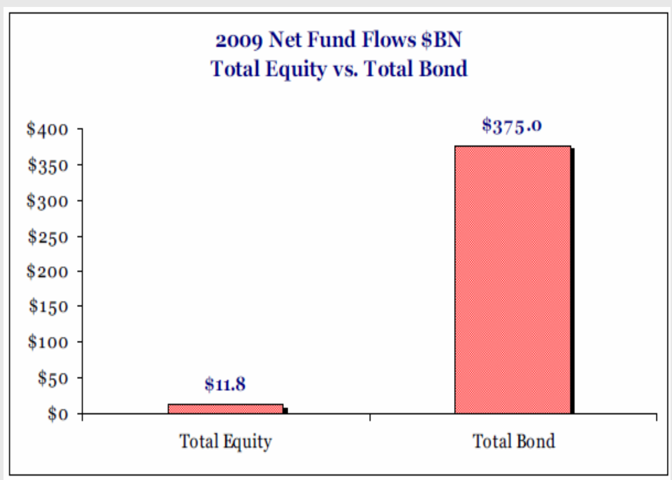
"That men do not learn very much from the lessons of history is the most important of all the lessons that history has to teach." -Aldous Huxley

As a group, investors have been instructed to base their investment decisions on the future as opposed to the past. After all, the now infamous phrase of "past results may not be indicative of future results" is commonly used to caution investors not to rely too heavily on recent performance or events in forming their investment strategies for the future. However, while investors shouldn't extrapolate historical performance into future periods, they should be highly aware of the notion that history often times has a habit of repeating itself within the context of the financial markets.

In fact, in looking for particular trends that tend to repeat themselves over long periods of time, investors can learn to recognize 'financial bubbles' or overheated investment climates. This was certainly the case in 1999 as investors continued to allocate growing sums of money to equities despite increasing signs of overvaluation within the market landscape. The below left chart depicts the total money that was allocated towards equities during 1999 compared to money that was directed into bonds. The money flow in 1999 was extremely one-sided in nature, as investors clamored to allocate more money towards equities given the rising stock market values. However, given the market declines that unfolded after 1999, in hindsight, we can recognize that 1999 wasn't likely a good time to be allocating additional funds towards equities.

Fast forward to today, and we have nearly the same situation occurring once again, except this time, instead of favoring stocks, investors are flocking to bonds. Faced with the prospects for higher interest rates during the coming years, this could once again prove to be a costly mistake for investors, for as interest rates rise, bond prices generally fall. Thus, while it is certainly important to orient your investment decisions towards the future, it is also critical to be a student of financial history, for as Mark Twain wisely noted, "The past does not repeat itself, but it rhymes."





Source: Charts Courtesy of Strategas Research Partners, LLC

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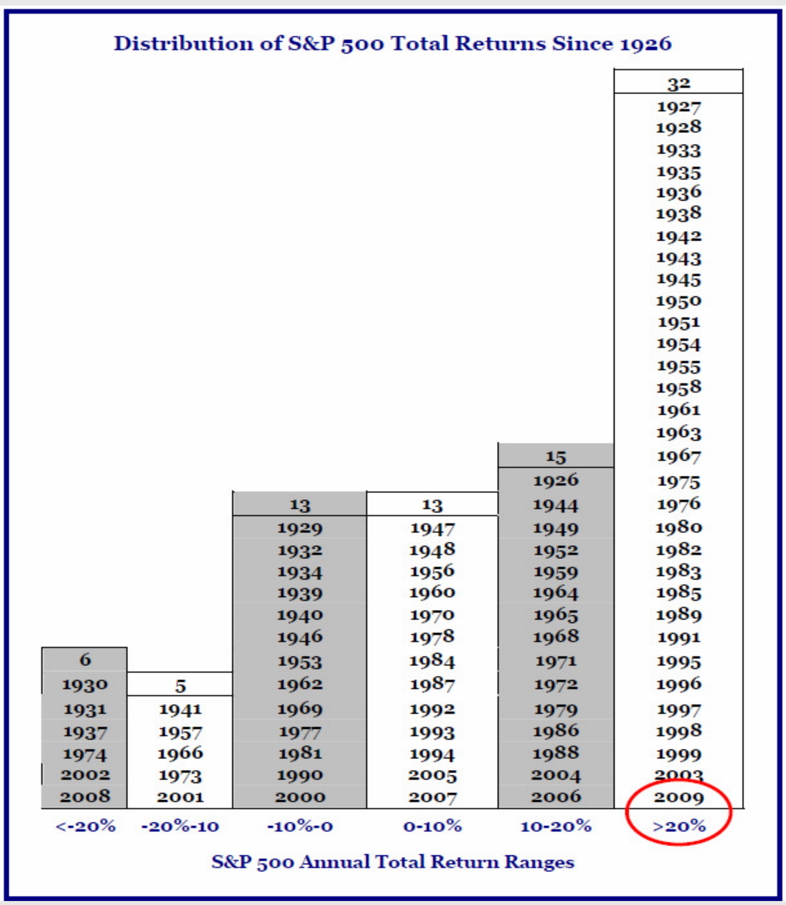
Why Time Is More Important Than Timing….

Lisa Smith, Registered Representative

Since 1931 the United States has faced more than a dozen recessions. That averages out to about one recession every six years. While recessions can be difficult to endure, it is important to remember that economic cycles will most definitely happen and that is why it is important to plan for them. A common question that we hear from our clients is “Are the markets headed for a fall in the short term?” The answer is ‘perhaps’, but moving in and out of the market to take advantage of these fluctuations can be a mistake. The problem with timing the market is that the investor needs to make two perfect decisions: to get out at the right time and to get back in at the right time. This is a guessing game that is very difficult if not impossible to perfect. In addition, by attempting to time the market, investors often incur higher expenses in the form of both taxes and transaction costs, which eat into investment balances. For these and other reasons, investors should look to the long term to maximize investment results.



Source: Strategas Research Partners, LLC

While 2008 certainly represented an abysmal year in terms of investment returns, in looking back during the past several decades, market declines of the magnitude witnessed during 2008 have been far less common than have been large gains within the overall market. Indeed, the chart featured to the left depicts the total return for the S&P 500 from 1926 through 2009. Since 1926, there have been 32 instances in which the total return for the S&P 500 Index has exceeded 20% on an annual basis. During this same time frame, there have been just six instances in which the S&P 500 Index has witnessed declines in excess of 20%.

Rather than worrying about whether the market is going to “correct” we encourage our investors to develop an investment portfolio that includes diversification, asset allocation and non-correlation to mitigate the risks in a portfolio. At SMITH HAYES, we encourage investors to look beyond short term market fluctuations and plan for the long term. A disciplined approach along with a continuous collaboration with a SMITH HAYES investment consultant will help an investor move towards his or her retirement goals.

Diversification does not ensure against loss.

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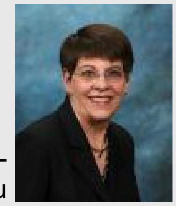
Long Term Care Insurance – A Part of Your Financial Plan

Maria Sinley, CFP®, Vice President, Investments



If you haven't considered the purchase of long-term care insurance (LTC) as part of your financial portfolio, perhaps you should. Not everyone needs LTC insurance, but it is important to educate yourself so you can decide how you want to address those issues and the financial concerns that come with them.

While most people associate long term care with being in a nursing home, it actually refers to a variety of services that are designed to meet an individual's health or personal care needs over an extended period of time. The need for long term care services often develops gradually and then progresses with age. Most long term care is given in the form of assistance with the everyday Activities of Daily Living (ADLs) - bathing, dressing, toileting, transferring from one point to another, continence, and eating. Some people need long term care in a facility for a short period of time while they recover from a sudden illness or injury and then they can be cared for at home. Others may need long term care on an ongoing basis as the result of a debilitating physical or mental condition such as a severe stroke or Alzheimer's. The fact is, 80% of long term care is provided at home.

The question becomes how to pay for long term care when and if the need arises. Many people think that Medicare will pay for these services once they are 65. Medicare only pays for long-term care if you require skilled services or recuperative care for a short period of time. Medicare does not pay for what comprises the majority of long-term care services – non-skilled assistance with Activities of Daily Living. Medicaid, the joint federal and state sponsored program that pays the largest share of long term care services, is only available if you meet specific financial and functional criteria. And most forms of employer-based or private insurance follow the same rules as Medicare. If you are one of 70% of people over 65 who will need some type of long term care there is a good chance you will have to pay for it out of your personal income and resources.

Unfortunately too many people don't take into consideration the impact of needing long term care. As they develop their financial plan, they fail to take into account how the costs of care will affect their income and assets, not to mention the physical and emotional impact on their loved ones. In the Midwest, the average hourly rate for home health care runs between $20-$32 an hour; adult day care services run about $100 per day; assisted living runs about $4,300 a month; and a semi-private room in a skilled nursing facility runs about $170 per day or $62,050 per year.
A LTC insurance policy can help protect and preserve your income and assets by providing a pool of money to help cover the various costs of long term care whether it's at home, in assisted living, or in a skilled nursing facility. Today's LTC insurance policies are designed so they can be tailored to an individual's or couple's needs, goals, and financial situation.

At SMITH HAYES Financial Services we want to do everything we can to help our clients meet their financial goals. Accordingly, if you want to see if LTC insurance should be part of your financial plan, or you have questions about LTC insurance, or you would like to review any LTC insurance policies you may already have, please contact your investment consultant.

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The Power of Percentages….

Larry Brenner, Vice President

A dress is selling for $100 after a 20% discount. What was the original selling price? This is a problem on the SAT exam that is rated hard. It is stated simply and uses numbers that do not require any complicated calculations. It is rated hard because most people answer incorrectly.

For most of us, balancing our checkbook is a good day. No one wants to return to a math class of brain grinding gridlock over the price of a dress. Unfortunately, dealing with life is an everyday maze of story problems that require answers. If you listen carefully to the news, you will find that percentages are used in a wide variety of stories and have the power to influence your opinion. Having a basic knowledge of percentages is essential for a better understanding of your investments.

When you view the seemingly endless menu of investment choices, it is helpful if you ask yourself this question. Is my life changed more by having a loss of 30% or a gain of 30%? By using 30% you are being influenced to consider your investments more seriously. Maybe there is some merit to all that talk about managing a temporary loss and avoiding permanent impairment of capital. Research shows that you are far more likely to take action at 30%. A dress that is discounted 20% may get your attention, but 30% makes the sale.

Calculating return is essential if you want to know if your investments are performing at a proper level. The percentage of your return is an important indicator of your ability to reach goals or monitor individual portfolio holdings. It is your money and not paying attention to your bottom line performance can be very expensive. Just a 1% annual difference on an investment of $100,000 over the next 20 years is more than $22,000.

After living through the last few years of volatility in the market, virtually everyone has suffered loss. It is only natural to question your investment strategy and wonder the percentage of return you may need to recover your capital as well as the length of time to break even. The chart featured below will help you estimate the returns you will need, and your investment consultant will be glad to help you with any other questions you may have.

Returns Required to Recover Investment Losses:

Portfolio Loss	Return Required to Break Even	Portfolio Loss	Return Required to Break Even
-10%	11%	-40%	67%
-15%	18%	-45%	82%
-20%	25%	-50%	100%
-25%	33%	-55%	122%
-30%	43%	-60%	150%
-35%	54%	-65%	186%

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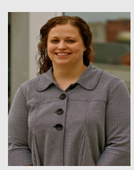
SMITH HAYES Recognizes Top Performers…..

Recently, SMITH HAYES celebrated our “Best of the Best” at the annual Employees of the Year Recognition Dinner. Nominations are gathered in four categories: Service, Spirit, Innovation, and Professionalism. In addition, we also recognized our Investment Consultant of the Year.

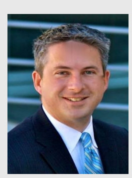
Innovation – John Decker (Executive Vice President) was presented this award as his vision and leadership are taking the firm to a much higher level with our clients and the community. He is truly a dynamic person and an asset to SMITH HAYES.

Professionalism – Clint Rushing, CFA (Research Coordinator) positively impacts each consultant by exceeding the highest standards of excellence in his support of giving sound investment advice. He is very knowledgeable and represents the firm well.

Spirit - Maria Sinley, CFP (Investment Consultant) reflects pride and passion in the guidance she provides to clients, in the many volunteer hours she devotes to the community, and in striving to make SMITH HAYES an even better place to work and do business.



Service – Brenda Merritt (Operations Director - Lincoln) performs exemplary customer service and is a great help to our investment consultants. She does everything with a contagious positive attitude.



Todd Peterson was named the **Investment Consultant of the Year**, our highest distinction. Todd demonstrates leadership, high integrity and extraordinary commitment to work and the community. He is a true champion for his clients, the firm, and the many different charitable organizations he serves.

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