

PRESTIGE WEALTH MANAGEMENT GROUP
Retirement Planning & Distribution Specialists

Quarterly Newsletter

PLEASE JOIN US FOR OUR

**5th Annual
Charity Golf Outing & Dinner**

to benefit

THE HUNTERDON MEDICAL
CENTER FOUNDATION

Thursday, September 8, 2011

Fiddler's Elbow Country Club
Bedminster Township, New Jersey

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Prestige Wealth Management Group

MAY 2011



The first quarter of 2011 has been an exciting time for the markets and for us at Prestige Wealth Management Group. We are excited to share some recent news with you. In the February 2011 issue of Barron's Magazine, Roy Williams, CEO of Prestige Wealth Management Group, was named to Barron's list of top wealth advisors for the third year in a row. Barron's ranked Roy as one of the top 1% of advisors in America, one of the top five independent advisors in New Jersey and the #1 independent advisor in Hunterdon and Somerset Counties.* Congratulations Roy!

In this newsletter, we will discuss positive signs from the most recently completed quarter, as well as current economic conditions including inflation, bonds and interest rates, global economies, unemployment and the housing market.

On another note, plans for our 5th Annual Charity Golf Outing are in full swing. For more information about the Hunterdon Medical Center Foundation's "Campaign for Hunterdon Healthcare" please visit the campaign website at www.campaignforhunterdonhealthcare.kintera.org. The golf outing will take place at Fiddler's Elbow Country Club in Bedminster, Township, NJ on Thursday, September 8, 2011 so be sure to save the date - we would love to see you on the course!

We hope you enjoy this quarter's newsletter.

Sincerely,

Roy Williams, ChFC
Chief Executive Officer

Steven Linden, CPA
Chief Financial Officer

Thomas McCabe, CPA
Chief Operating Officer

*Ranking based on factors including assets under management, revenue produced for the firm, client satisfaction, regulatory record and philanthropic work.

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Overview

The first quarter of 2011 has been an eventful time - first political turmoil in North Africa and the Middle East, then the devastating earthquake, tsunami, and nuclear crisis in Japan. The market staggered briefly, but shook off these twin shocks and investor sentiment is better than anticipated.

The Dow Jones Industrial Average rose 6.4% for the first quarter—its best in percentage terms in twelve years. In fact, it rebounded 6% from its turmoil-induced lows in mid-March. (Source: WSJ, Money and Investing, April 1, 2011, C1) The Standard & Poor's 500 Index and the NASDAQ both rose 5.1% for the quarter, and small company stocks rallied even stronger. The Russell 2000 Index was the best performer among the broad U.S. benchmarks, gaining 7.6% and ending the first quarter only 1.4% off its record high hit in July 2007. (Source: WSJ, April 1, 2011, C1)

Let's look at a quick overview of the current state of financial affairs:

- Economic growth in the U.S. is now above average and appears likely to keep this pace through the first half of the year. Growth in Asian emerging market countries, especially China, remains high.
- Unemployment is still high in the U.S. and the hiring rate is slow. The unemployment rate appears to be declining slowly, in turn keeping wage growth modest.
- There appears to be a tension between all the unused capacity in the economy (which is keeping a lid on prices) and strong global demand (which is pushing commodity prices higher).

China and other Asian countries are taking steps to reduce growth, stem inflation and deflate price bubbles.

The European debt crisis appears to be a rolling concern—the long-term consequences of this problem are difficult to predict for the global economy and financial system.

U.S. businesses have a significant amount of cash and, if they become confident about sustained growth, it is likely they will buy other companies, increase their dividends, and perhaps even hire more people and invest in capital assets.

Positive Signs

There was a lot of positive economic news recently, including:

- A 3.1% rise in the fourth-quarter gross domestic product, up from 2.6% in the preceding three months.
- A consumer spending increase of 0.7%, powered in part by slightly higher personal incomes.

- A drop in the unemployment rate to 8.9% as employers added 192,000 jobs.
- The S&P 500 currently trading at 13 times expected 2011 earnings, well below the 20-year average of 19 and the 5-year average of 15.
- In February the Federal Reserve estimated that the Nation's Gross Domestic Product (GDP) should rise from 3.4% to 3.9% this year. If it does, it will mark the economy's best performance since 2004. (Sources: The Week, April 8, 2011, "Issue of the Week" and Dow Theory Forecast, March 21, 2011)

This is good news for investors. While some stock market indices have more than doubled since their March 2009 lows, the expanding economy suggests that there may even possibly still be room for additional stock market gains. (Source: WSJ, March 24, 2011, C8, Revitalized Economy)

"There is a tremendous amount of liquidity in the financial system today," says Gibson Smith, co-chief investment officer, fixed income, for asset management company Janus Capital Group. "Consumers are showing signs of life, while corporations are increasing their spending. All these positives should set us up for stronger economic growth that should benefit the equity and credit markets." (Source: WSJ, March 24, 2011, C8) – (looking for C10 from 3/24)

Current Economic Environment

Unfortunately, not all of the economic news is positive. The market may become erratic due to the following:

- Weak growth of corporate profits (the percentage has fallen from double digits to near zero earlier this year).
- Most federal stimulus packages are expected to end by the end of June.
- Despite high levels of growth, many economic indicators are still at low levels relative to their 2007 peaks.
- The Fed's bond-buying scheme (QE2) is also supposed to end in June.
- The situation in Japan is still uncertain, especially in regard to the damaged nuclear reactors.
- Tensions in the Middle East remain high.
- Oil is up over 15% since December 31, 2010 to more than \$104 per barrel.
- The number of bailed out European nations is set to reach three with the possible addition of Portugal.
- Gold is trading at all-time highs versus the dollar amid doubts about the U.S. government's ability to service its debt load without inflationary currency problems.



The Federal government's 2009-2012 budget deficits alone will come to \$5.5 trillion. Many investors are concerned about the long-term effect this will have on our economy, especially as it affects our country's credit rating.

Inflation

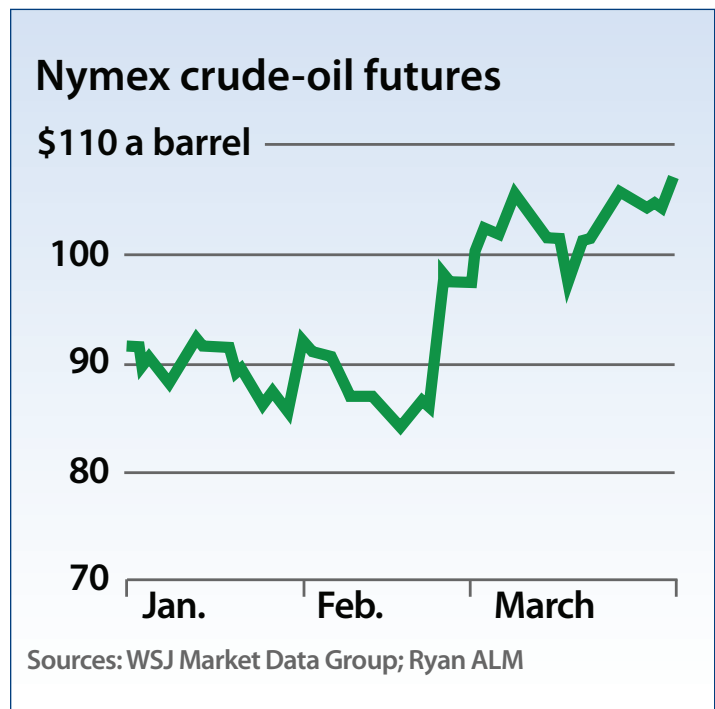
One of the greatest risks to investors today is rapidly rising inflation. Easy money often leads to inflation, and massive monetary stimulation around the globe has been in place for several years now. "Inflation has probably bottomed out in the U.S., and from this point on will probably start to move higher," James Bullard, president of the Federal Reserve Bank of St. Louis, said in a recent interview. (Source: WSJ, April 6, 2011, A14)

Crude oil prices rose over 15% in the first quarter of 2011, compared with a similar gain for all of 2010. The impact of significant increases in oil prices is being felt everywhere, raising concerns that higher oil prices could derail the economic recovery. It is easy to forget how extensively its derivatives are used in other products—tires, plastics, asphalt, even cosmetics. Don't forget propane and jet fuel! Is this due to the violence in Libya? Libya exports roughly 1.7% of global supply. This is hardly enough to send oil prices sharply higher. Rather, the recent jump in oil prices reflects concerns that civil unrest could spread to Saudi Arabia. These concerns are vastly overblown according to many economists.

It is always best to stay ahead of inflation, but that is easier said than done. As prices for food and energy climb, a growing number of governments, most recently in Asia, are trying to protect consumers by expanding subsidies, imposing price controls or embracing other short-term fixes that many economists fear will prove counterproductive and lead to higher inflation.

Bonds and Interest Rates

The price of a bond moves in the opposite direction of its yield. When inflation kicks up, interest rates usually move higher, pressuring bond prices. Even buy-and-hold investors can get hurt because higher inflation erodes the real value of the interest payments you receive and the principal you get back when the bond matures. Typically the movement in price is more extreme in longer-dated bonds



(because low yields are locked in for a longer period of time). The most conservative bonds, especially Treasuries, are usually the hardest hit, because these are the most influenced by changes in interest rates—unlike corporate bonds, whose prices also move based on credit quality. Accordingly, we currently support a duration of less than 4 years for bond portfolios.

Despite rising inflation, the Fed is holding interest rates at artificially low levels and, since the start of the financial crisis, has resorted to buying Treasury bonds to flood the system with new cash. Known as quantitative easing, the practice aims to raise bond prices and lower yields to stimulate the economy and exports. The consequences over time unfortunately are a weaker U.S. dollar and higher prices for imports. The Fed will continue quantitative easing (QE2) until the end of June, at which point many economists believe that long-term rates will climb.

Unfortunately, our current situation presents a dilemma. If inflation takes off, many governments would combat it by raising interest rates in order to cool demand. But that is the last thing they want to do if their economy is still weak and recovering from all of the financial shocks.

Despite dissatisfaction with low yields, many investors have not sold their U.S. Treasuries because they are a safe haven for global investors. There are still \$3 trillion or so invested in short-term accounts here in the U.S. alone. It appears that many investors, still feeling the effects of the debacle of 2008, are following Bernard Baruch's dictum: "I'm more concerned with the return OF my money than the return ON my money!" However, with interest rates at extremely low levels, many economists believe that long-term bonds currently represent a more significant risk to investors than many stocks.

Global Economies

Volatility and uncertainty appear highly probable, especially for the second half of 2011, due to the uneven economic conditions around the globe:

- China and a few other countries have high inflation and very high economic growth. Unfortunately, there are potential asset bubbles in many of these countries and many are trying to restrain growth and inflation.
- The Middle East's political problems have sent oil prices rising significantly which, if sustained, could put a damper on economic growth.
- Portugal is almost certain to become the third country in the Euro zone to require a bailout, after Greece and Ireland, and a number of European countries are dealing with significant amounts of outstanding debt.
- Japan's recent earthquake and tsunami—and the still unresolved troubles at a nuclear power plant—continue to wreak havoc with the world's third largest economy.



“We’ve lived through so many shocks over the past two to three years that the markets have become fairly skilled at quickly taking stock, absorbing the upheaval and moving on,” said Ivor Dunbar, head of global capital markets at Deutsche Bank AG. (Source: WSJ, April 1, 2011, C12, Stock and Bond Sales)

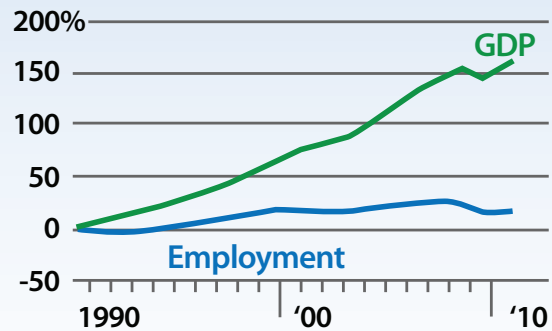
Unemployment and Housing

Payroll employment increased by 216,000 in February, quite a bit more than expected. Private employment actually gained 230,000 while government jobs declined slightly. While the nation’s unemployment rate dipped to 8.8%, the lowest since March 2009, many Americans are still emphasizing saving rather than spending, which might put a cap on the recovery in consumer outlays.

The J.P. Morgan economist, Michael Feroli, describes the current job market as the “no-fire, no-hire job market.” The first quarter saw the lowest level of job cuts since 1995, as measured by consulting firm Challenger, Gray & Christmas. Meanwhile, new weekly jobless claims are hovering near a 2½ year low. (Source: WSJ, April 1, C1, Ahead of the Tape)

Mission Accomplished?

Cumulative percentage change in non-farm payrolls vs. real GDP



Sources: WSJ Market Data Group; Ryan ALM

Housing, affected by continued high unemployment, still remains a major drag on the economy. The inventory of homes on the market could steadily increase due to foreclosures, while unemployment, low incomes, and tougher underwriting for many loans reduce the number of potential homebuyers. There are some good signs, but home prices and new home sales are still low, so it is important to be cautious.

Conclusion

Can stocks continue their growth? That will depend on a number of factors, in particular, corporate earnings, oil prices, Middle East tensions, and inflation. As we approach mid-year, uncertainty will likely hang around until it is clear that credit growth is rising and businesses are starting to hire. At this point, the best thing to do is to continue to allow us to review your situation on a regular basis.

If you'd like a copy of this article sent to someone else who would benefit from this information, please contact Prestige Wealth Management Group at 908.782.0001.



Note: The views stated in this letter are not necessarily the opinion of LPL Financial, and should not be construed, directly or indirectly, as an offer to buy or sell any securities mentioned herein. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results. Material discussed herewith is meant for general illustration and/or informational purposes only, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice.

Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed.

This optimism about the future does not minimize the fact that we have gone through one of the worst economic periods in market history. Remember that equity markets are volatile and an investor may lose money and there is no guarantee that securities will appreciate. This material contains forward looking statements and projections. There are no guarantees that these results will be achieved.

In general, the bond market is volatile, bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. The investor should note that investments in lower-rated debt securities (commonly referred to as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default.

Sources: Wall Street Journal (10/25/10, 11/4/10, 11/13-14/10, 11/16/10, 11/20-21/10, 11/18/10, 11/29/10, 12/10/10, 12/14/10, 12/17/10, 12/23/10, 12/29/10, 12/30/10, 12/31/10, 1/3/11, 1/6/11, 1/7/11, 1/8-9/11, 1/10/11, 1/13/11), Barron's (11/8/10, 1/3/11), Money Magazine (Jan/Feb 2011), Bloomberg Business Week (10/18-24/10, 11/18-14/10, 1/3-9/11, 1/10-16/11), Kiplinger's Personal Finance (1/2011), By The Numbers (1/8/10), Fortune Magazine (12/27/10), Investment News (11/10, 11/15/10), The Economist (9/4/10, 10/30/10, 12/18/10, 1/1/11), Forbes (12/20/10), Nick Murray Interactive (January 2011), Financial Planning Magazine (September 2010, January 2011), Time Magazine (1/10/11), MDP, Inc. This material was prepared for Prestige Wealth Management Group's use.

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