Third Quarter, 2012 Insights

www.PawleysAdvisors.com

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Third Quarter, 2012 Insights

- Economic Update
- Leading Economic Indicators
- The Yield Curve
- Strategic versus Tactical Asset Allocation
- Performance Update – PIA Equity Portfolios
- invest right, live right™

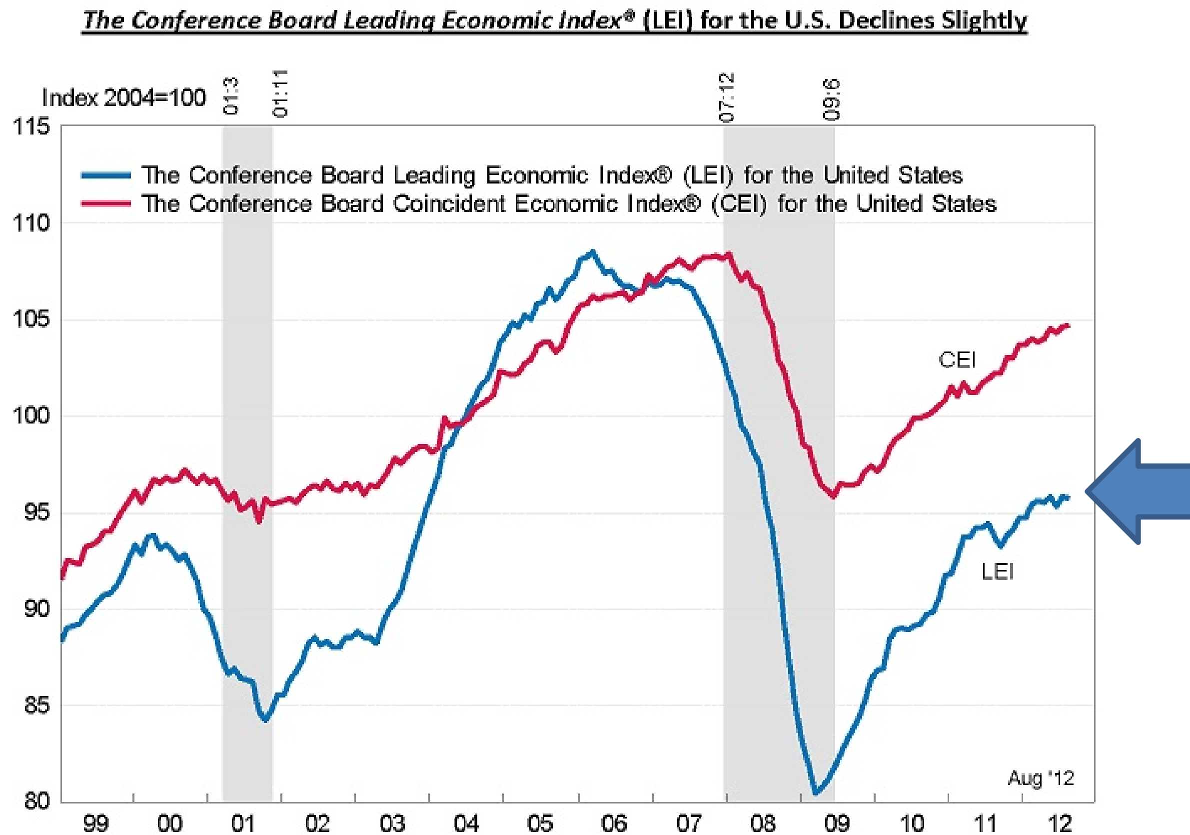
Economic Update

- Gross Domestic Product (economic output) has been positive for 3 years
- Jobs and housing, which always lag following a recession, are improving
- Global economic growth remains fairly consistent with the exception of highly leveraged countries in Europe
- Stock markets (Dow, S&P and NASDAQ) at multi-year highs
- Quantitative Easing – the gift that keeps on giving
- Leading Economic Indicators dip slightly in August (-0.1%)
- Yield curve remains normal but has flattened somewhat, inversion can be predictive of recessions (short term rates rise about long term rates)
- U.S. must deleverage as interest costs on the national debt will skyrocket when rates rise in the future – inflation will aid the deleveraging process

Leading Economic Indicators

LEI's (blue line) anticipate the direction of the economic cycle 6-12 months in the future.

Despite a small drop in August, the upward trend continues.

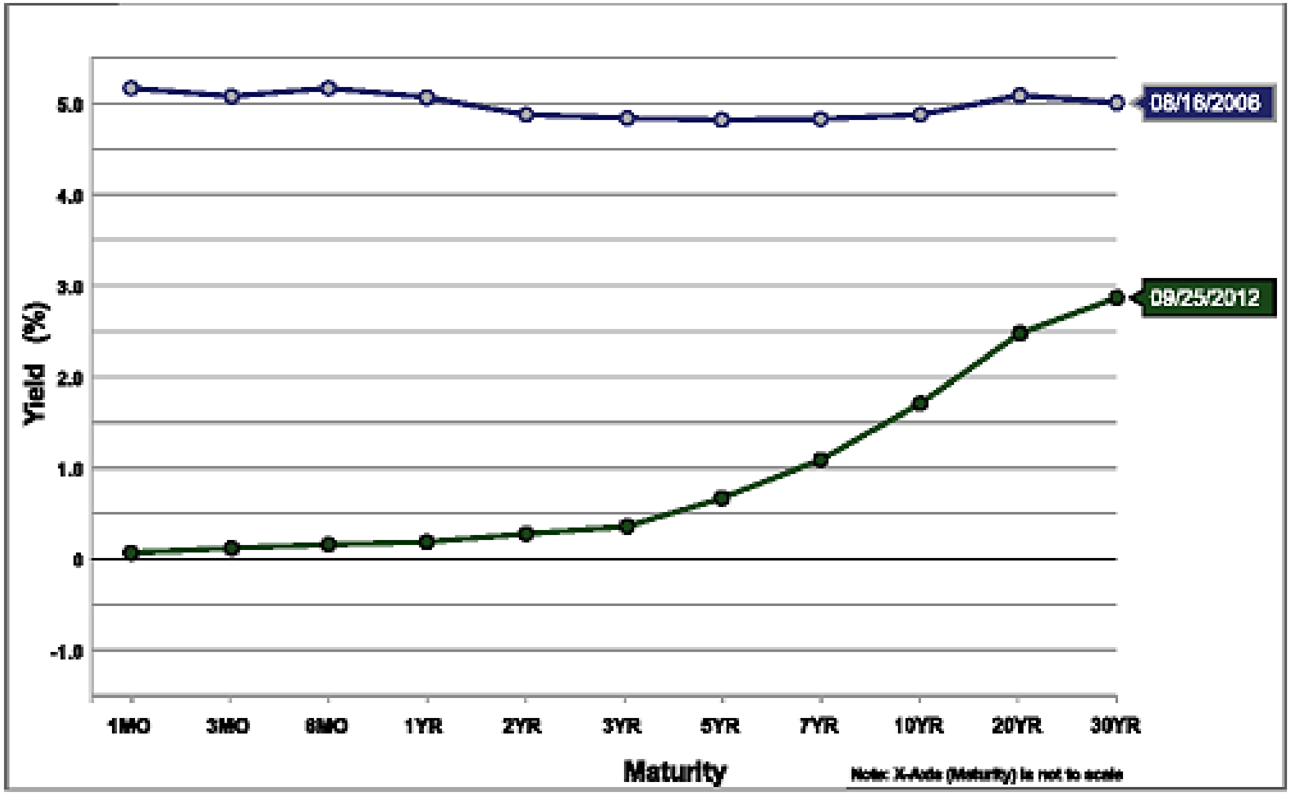


Latest LEI Trough March 2009, Latest CEI Trough June 2009
Shaded areas represent recessions as determined by the National Bureau of Economic Research.
Source: The Conference Board

The Yield Curve

When short term yields rise above long term yields (blue line at the top from 2006) it may predict future recession.

Today's curve (green line) remains normal in its shape, but has flattened somewhat this year.



Strategic Asset Allocation

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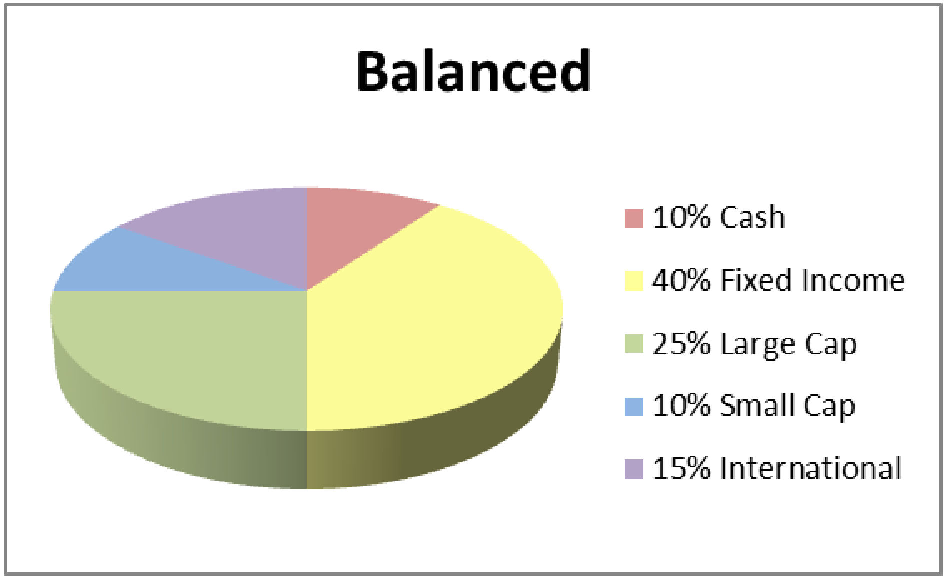
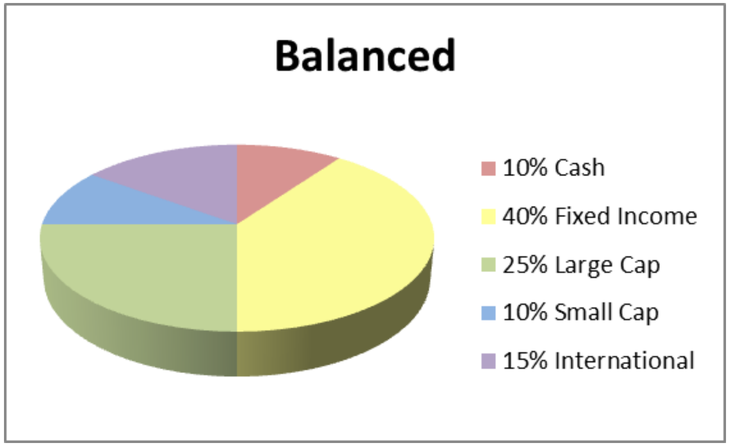
Strategic asset allocation is your base starting point of cash, fixed income and equity (large cap, small cap and international) percentages.

Periodically as the markets shift, the portfolio needs to be rebalanced or adjusted back to these target percentages.

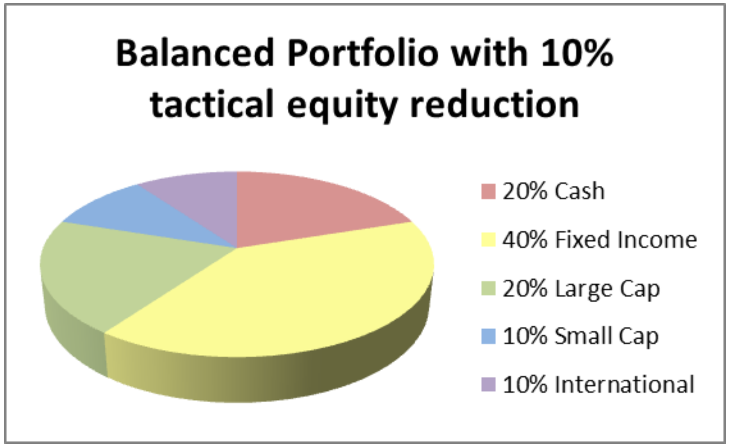


Tactical Asset Allocation

If LEI's drop and the yield curve flattens, PIA may recommend a tactical underweight of equities, as these events can be predictive of stock market drops.



The bottom chart shows a 10% tactical underweight of equities to the balanced portfolio, which takes the mix to a more defensive position of 60% fixed and cash: 40% equities.



Performance Update

	2011 Total Return	Year-to-Date 2012 Total Return As of 9/14/2012
Pawleys Model Dividend Portfolio	**+6.74%**	**+12.42%**
Pawleys Model Growth Portfolio	**+8.72%**	**+24.13%**
S&P 500 Benchmark	+2.11%	+13.51%

Source: YAHOO! Finance, Bigcharts, Morningstar as of 9/14/2012.
Price and total return calculations are for informational purposes only and are not intended to take the place of your monthly statements. Not adjustments have been made for fees or taxes. Please consult Pawley's Investment Advisors to see if these investment ideas fit within your existing portfolio. Past performance does not guarantee future results.

*"If you judge people,
you have no time
to love them."*
– Mother Teresa

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