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*“If you watch  
a game,  
it's fun.  
If you play at it,  
it's recreation.  
If you work at  
it, it's golf.”*

Bob Hope  
(1903 - 2003)

## 2010 Wrap up & Looking Forward into 2011 Happy New Year Everyone!

I want to thank everyone for the special trust and confidence placed in Eagle Wealth Management last year. I especially want to thank you for all the support and prayers for Nancy this fall and am pleased to report that she finished her treatments before Christmas and is doing just great.

As many of you know, I enjoy playing golf, even with my fairly high handicap. One of the things I like about ***golf is it's a game of honor.*** There are no referees. You keep your own score, call your own penalties and play the ball as it lies. ***I think the same principles should apply in managing money.***

As far as the score goes, in 2010, Eagle Wealth Management ***clients overall earned a total return of seven percent after all fees and expenses.*** Some accounts saw a higher percentage return, some saw less than seven percent, but everyone came out well in the black despite over \$1 million withdrawn in cash by clients with various personal spending needs. I'll be sending you the details for your individual accounts along with the first quarter invoices.

***As far as penalties go, my most costly mistake was buying into the general concern about bond yields last winter.*** The hedges I put in place back then to protect against possible interest rate increases (with corresponding bond price declines) were the only big losers we had for the year and we shut them down before they could hurt any account seriously. Those hedges would have worked better between Labor Day and Christmas when bond prices pulled back some with a corresponding rally in stocks. That pull back in bond prices, however, was not enough to offset a strong overall performance for our bonds for the year. We also had enough stock market exposure to benefit nicely from the late year rally.

So where do we stand as we look forward into 2011? I believe there will be some momentum from the late year stock market rally and pull back in bonds going into the New Year. Learning from last year, however, I remain a bit cautious about buying into the idea that we are entering a strong enough economic recovery to support a prolonged bull market in stocks and a prolonged pull back in bonds. There's far too much hope built into this rally and "hope" is not an investment strategy that usually works out well.

As I discussed in my last newsletter, the markets are really dominated now by what is called "algorithmic" trading by high speed computers. These computers are set up with algorithm driven decision programs that basically ignore fundamental values of companies while they chase short term trends and momentum in market prices. Moreover there's a very heavy dose of leverage (borrowed money) in the stock markets right now and that coupled with the role of computers can lead to sudden and potentially dramatic reversals. In the last quarter or two, corporate insiders have been net sellers of their companies' stock at exceptionally heavy levels. Meanwhile, individual investors have been selling bond mutual fund shares and buying stock fund shares. So we have the potential for a classic trap with smart money selling and not so smart money buying. The caution flags are flying in the breeze!

Meanwhile in the world of bonds, the strongest pull back since late August has been in the mid to long term U.S. Treasury market. We hold very little invested in those markets (less than 2% of assets). Most of our bond investments are in corporate bonds and municipal bonds and these markets have not been affected as much as longer term Treasury markets.

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There's an exceptional amount of cash sitting on corporate balance sheets right now. Many believe that this cash will be put to work in the economy this year and will support a prolonged bull market. I'm not entirely convinced of this thesis.

Overall industrial capacity is at its lowest utilization rate in decades and I think companies will continue to hoard their cash until they see a convincing pick up in aggregate demand for their products and services. Adding labor costs and investing in added capital equipment are not logical choices for corporations in an environment of weak sales. Thus, this cash remains available to support interest payments on their bonds while they wait for the economy to really turn around.

Municipal bonds are in a very interesting and challenging situation right now. Some of you have mentioned concerns because most issuers of municipal bonds are currently experiencing very difficult economic times. State and local tax receipts are down and public employee costs and other municipal issuer expenses are up. So there's a legitimate concern about the possibility of municipal bond defaults. Here again, I believe these concerns, while valid, are not very likely.

Because they have to match long term capital needs with variable cash flows from taxes, states and municipalities are very sensitive to their access to the municipal bond markets. Time and again they have demonstrated that they prefer to stiff their pension plans or lay off municipal employees, including even police, firefighters and teachers rather than risk their bond ratings. Moreover, we have great diversification in our municipal bond holdings with no concentrations in any particular issuer. I always verify the source of funds behind each bond and avoid bonds depending on commercial activities like airports, industrial parks, tobacco litigation awards, and toll roads. Our municipal bonds are primarily supported by the general taxing power of the issuer. If citizens don't pay those taxes, they may get a visit from someone with a badge and a gun. Corporations can only wish they had that sort of control over their revenues.

There's no guarantee that I have got this all figured out just right. Some of this may and probably will end up being wrong. ***That's where "playing it as it lies" comes in.*** Every day is a new round. The score you shot yesterday may help or hurt your handicap for a while, but ultimately you have to play what lies in front of you. Golf is not a game of perfection and neither is investing. In both endeavors, if you don't compound mistakes with high risk decisions, but keep the ball in play, get back into the fairway and keep your losses small, you'll win in the end.

As always, if any of you would prefer a more aggressive strategy than I've been using for you, please let me know. Every account is managed separately based on my understanding of the needs and goals of each client. Most of my accounts are managed with an emphasis on capital preservation with prudent growth of capital and income, but some clients have asked me to be more aggressive and accept more risk and in those cases, I do.

***Thanks again for all your trust and confidence.*** I'm energized by the opportunities that lie ahead as we proceed together through 2011.

*Jette*

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