

# WealthManagement

SOLUTIONS FOR YOUR LIFENEEDS™



## Market Insights

*A periodic newsletter from Idaho Trust*

*Idaho Trust Wealth Management actively conducts and receives research on stock, bond and international markets. We utilize this information in managing client portfolios. In particular, market research and analysis is the backbone of Idaho Trust's proprietary LifeNeeds™ investment process. This month's market insight provides a broad update on primary investment markets.*

### Domestic Stocks

The US Domestic Equity market, as measured by the S&P 500 (SPX), has turned in an impressive one year return of 30.68% and a year-to-date (YTD) return of 6.01% as of June 30th. Regrettably, recent economic indicators point to a soft patch ahead for the US economy. Housing and employment economic indicators have been particularly disappointing.

Style investing, namely the purchase of growth or value stocks, entails investing in companies exhibiting specific characteristics. On one hand, value investing seeks to find investment opportunities that are attractive relative to other investment opportunities given their current price. Growth investing, on the other hand, focuses on identifying companies that are exhibiting attractive rates of growth as investment opportunities.

	Growth Stocks	Value Stocks
YTD	6.80%	5.23%
1 Year	33.58%	27.93%
3 Year	4.62%	2.07%

As of 6.30.2011

Idaho Trust Bank offers holistic wealth management services featuring its LifeNeeds™ investing process. Idaho Trust's LifeNeeds™ investment process utilizes proven strategies and techniques delivered by a highly trained staff of wealth management professionals.

LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust's proprietary Tactic-Logic™ investment process. All of which are tailored to our client's unique financial needs, ensuring LifeNeeds™ clients the best possible expected return according to their risk tolerances.

As the included chart shows growth stocks have exhibited superior returns over several recent periods.

## International Stocks

In a global context, the total US market only represents a fraction of the investment opportunities available to US investors. Allocations to international markets serve a key role in a properly diversified portfolio by lowering an investor's correlation to the domestic market.

The two themes currently dominating the international equity markets are the debt crisis in Europe, particularly Greece, and the high levels of inflation in emerging markets. International stock markets are closely watching the latest developments coming out of Europe regarding efforts to stave off a possible default by the Greek government. Emerging markets are also revisiting methods to deal with the levels of inflation that they are currently experiencing.

Developed and emerging markets as defined by the MSCI EAFE (MXEA) and the MSCI Emerging Market (MXEF) indices have returned 31.00% last year and 5.34% YTD; and 27.80% last year and 0.81% YTD respectively.

Emerging markets, whose economies are less developed, historically have low correlations with the US stock market. If the US economy does hit a soft patch, international diversification is an attractive way for investors to lower their correlation to domestic stocks.

Presented below are Barclays Capital's current forecast of GDP and inflation, measured by consumer prices, for global, developed and emerging markets.

	Real GDP		Consumer Prices	
	% Annual Change		% Annual Change	
	2011	2012	2011	2012
Global	4.0%	4.3%	3.8%	3.0%
Developed	1.9%	2.8%	2.7%	1.9%
Emerging	6.6%	6.2%	6.2%	5.3%

Source: Barclays Capital

## Domestic Fixed Income

Tax exempt bonds have bounced back sharply from a disappointing 4th quarter of 2010 (Q4 2010). The Barclays Municipal Bond index returned -4.17% in Q4 2010 but has returned an impressive 4.42% YTD. It appears that the municipal market's fears about the failure to extended the Build America Bonds program, supply shortage and possible widespread defaults have largely been alleviated.



The taxable fixed income markets have also shaken off a poor Q4 2010 and have return 2.72% YTD, as measured by the Barclays Aggregate Bond index.

One of the challenging aspects of the current fixed income market is finding attractive yields in this low rate environment. A method available to investors to capture additional yield in low rate environments is to extend their duration into longer term securities. In typical fixed income markets, longer duration securities offer higher yields. Given the current levels of rates and the short to intermediate term rate outlook, investors may benefit by extending their duration to increase their current yield.

## International Fixed Income

As hard as it may be to believe now, in 2007 the Federal Funds Target rate was at 5.25%. Now, the Federal Funds Target rate is and has been for two and half years fixed at 0.25%. The low Fed Funds rate has ushered in an extended period of low rates in the domestic fixed income market. This rate environment has made it difficult for investors who depend on current income from their investments.

To increase current income, exposure to international bonds can increase the levels of income that a portfolio pays. International bonds are currently paying higher levels of current income than comparative domestic fixed income securities, with lower volatility than stocks. International fixed income investments also offer additional diversification benefits boasting low correlations to both US domestic equity and US fixed income markets.

## Alternatives

Historically commodities and real estate securities, as asset classes, have demonstrated high levels of volatility. This has been especially true of commodities recently. Typically, investors gain exposure to commodities not by purchasing the raw commodities themselves, but by investing in investment vehicles that have access to the commodities futures' markets. This is an efficient method of gaining exposure to the commodities market.

Unfortunately, investments in commodities do not produce cash flows, leaving commodities investors dependant on the price appreciation of their investments as their sole method of return. Conversely, real estate investments, assessable via Real Estate Investment Trusts (REIT), offer both price appreciation and cash flows as dual methods of return.

Real estate, as opposed to commodities, is currently paying attractive cash flows, especially internationally. Higher levels of cash flows can help to offset the price volatility experienced by these typically volatile asset classes. Investors seeking shelter from the blistering price fluctuations of commodities and who want to boost the income side of their total return should increase their exposure to real estate securities.

### S&P 500

3 Month	0.09%
Year-to-Date	6.01%
1 Year	30.68%
3 Year	3.34%
5 Year	2.94%

### MSCI EAFE

3 Month	1.78%
Year-to-Date	5.34%
1 Year	31.00%
3 Year	-1.23%
5 Year	2.04%

### Barcap Aggregate Bond

3 Month	2.29%
Year-to-Date	2.72%
1 Year	3.90%
3 Year	6.46%
5 Year	6.52%

*As of 6.30.2011*

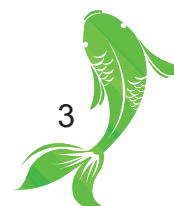
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