

QUARTERLY UPDATE

3rd Quarter 2009



THIS TIME IT'S DIFFERENT?

Oh how perceptions and attitudes have changed in a relatively short span of time. It was just seven months ago when investors feared the onslaught of Financial Armageddon and now we are all expecting the economy to be on the cusp of a robust recovery for next year and beyond. What we have experienced is a **dramatic transformation in the re-pricing of risk across the broad spectrum of assets**. The swiftness and magnitude in the recovery of price has taken most by complete surprise, including us. The word unprecedented is often bantered about liberally, but as we mentioned in our latest Interim Market Update: *Lull in the Storm*, **this current move in the stock market has been the sharpest rally (roughly +60% in only six months) ever** in the context of pricing out a recession. The results below show the amazing recovery from the market bottom of March 9th.

Performance from March 9 th Lows	
Dow Jones Wilshire REIT	103.44%
MSCI Emerging Markets	91.70%
MSCI EAFE (International)	74.73%
S&P SmallCap 600	74.61%
S&P MidCap 400	70.78%
S&P 500	56.25%
Goldman Sachs Commodity Index	22.42%
Gold ¹	9.30%

Source: Yahoo Finance & Bloomberg²

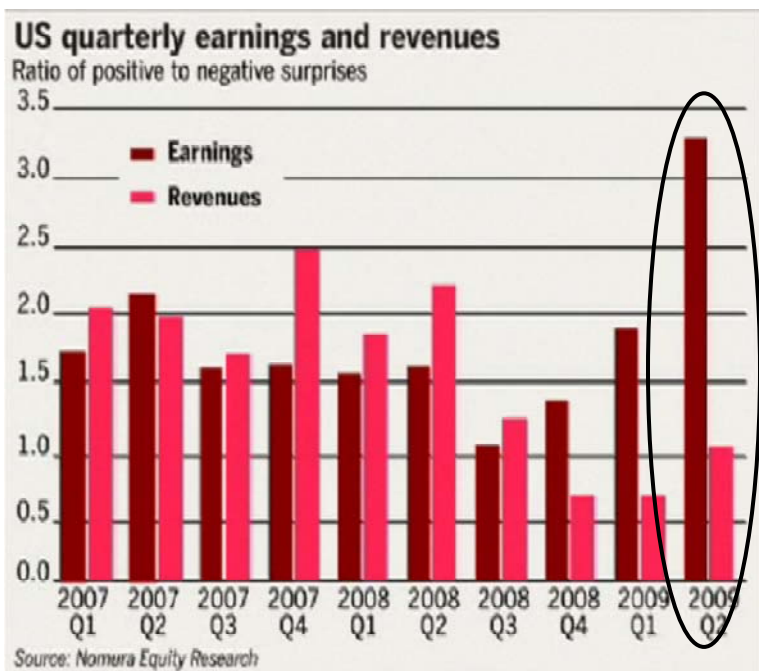
¹ Using the SPDR Gold Shares as a proxy for Gold

² Performance figures from 03/09/2009 through 09/30/2009

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The slightest hints of economic recovery that prompted **this current buying spree of financial assets has largely been aided and sustained by the enormous and unprecedented government programs and stimulus.** Many of these hints, however, are indications that things are not good, just “less bad” than they have been in the past. For example, the housing market appears to have ended the freefall in price that occurred over the past two years with assistance from the government stimulus program for first time home buyers supporting demand. Recent retail reports have been encouraging but with programs like “Cash for Clunkers” spurring auto demand, one wonders the strength and durability of

the economy without the help of Uncle Sam. Demand continues to be relatively soft, with a poor employment outlook and continued tight lending standards.



Corporate profitability has also been a significant factor in the recent run-up in the stock market. Due to the dramatic economic slowdown in the 4th quarter of 2008 and the 1st quarter of this year, earnings expectations for 2009 were dramatically lowered. Through aggressive cost cutting efforts, many companies were able to show positive earnings surprises in the second quarter, even though revenue growth has been largely disappointing.

Earnings estimates for the S&P 500 Index are forecasted to increase 34% from 2009 to 2010. It appears that investors have accepted poor earnings for the rest of 2009 and are focusing on a broad earnings recovery in 2010. To achieve this rate of profit growth, corporations will need to have top line revenue growth, which will rely on an improving economic environment.

The extreme market volatility that investors experienced in the last half of 2008 and first quarter of 2009 tested the resolve of all investors. As a result, investors fled from risk and risky assets. Since March the volatility of the market has declined significantly, **the pendulum has swung the other way as the appetite for risk has returned,** reflected in the strong performance for example of high yield bonds and financial stocks, many of which were left for dead in the first quarter.

WHAT IS NOT DIFFERENT

CHART 1: GROWTH IN NOMINAL GDP IS WHAT MATTERS MOST FOR THE STOCK MARKET ...

United States

(year-over-year percent change)



Source: Haver Analytics, Gluskin Sheff

had been increasing their ability to spend by taking on more debt, essentially turbo-charging economic growth using leverage. This came to a crescendo with the bubble in housing prices and the unprecedented withdrawal of home equity earlier this decade.

Savings rates have surged dramatically over the past year as a response to the weakening economy, poor labor market and deteriorating personal net worth (see chart at right). Along with this bank lending has plummeted (see chart on next page) and these two factors have reduced consumer spending. This transformation from consumption to savings is rational and prudent, but it begs the following questions. What will fill the void in the economy? What will be the source of future economic growth?

While changes in the economy continuously occur, **the pricing of investments remains a function of earnings growth and the certainty of those earnings.** Companies grow their earnings through the combination of increased profit margins (cost cutting and/or improving efficiencies) and revenue growth, or top line sales. It is extremely difficult, if not impossible to have a sustained recovery in corporate profitability without revenue growth. To a large extent, the rate of growth in revenue is a function of the health of the economy both in the US and abroad, as measured by Gross Domestic Product (GDP). Given this, there is a close relationship between GDP and the broad stock market, as the chart on the left illustrates.

The two main components of the economy are consumption and government spending. Consumer spending is by far the largest segment of our economy and represents approximately 70% of GDP. **Over the past three decades, consumers**

PERSONAL SAVINGS RATE
Annual, % of Disposable Income



Source: J.P. Morgan Asset Management, BEA, Federal Reserve
Data is assumed to be reliable.

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This shift will force companies to focus outside of the US for economic opportunities and rely more on our exports. This transition is likely to be bumpy. We will become more reliant on the rest of the world's GDP than we have been in the past. In the meantime, recognizing this dilemma, **the federal government has stepped in to help fill the gap.** This intervention on behalf of our government has resulted in a dramatic increase in government spending and a corresponding ballooning of the budget deficit (see chart below),

What does all this increase government spending mean to you?

The government will have limited and difficult choices to make. Raising taxes is one course of action, whether it be to explicitly increasing tax rates or by restricting deductions. Raising taxes, however, could have an impact on future economic growth. It is safe to assume that the Bush tax cuts will expire at the end of next year and whatever changes are made will still mean higher taxes. Cutting spending would be another option, one that seems most obvious to consumers who themselves have had to cut back during the recession. Unfortunately, however, politicians don't get elected by taking things away. We should understand the implications of shifting taxes on your personal financial life and on investment assets.

Another option to deal with the increasing debt would be to monetize it. This has already happened with the Federal Reserve creating money to buy government debt in an attempt to keep long-term interest rates artificially low. While this may work in the short-run, the long-term effects of this type of policy could be inflationary once the slack in manufacturing and labor markets are absorbed.

WHY THE US DOLLAR STILL MATTERS

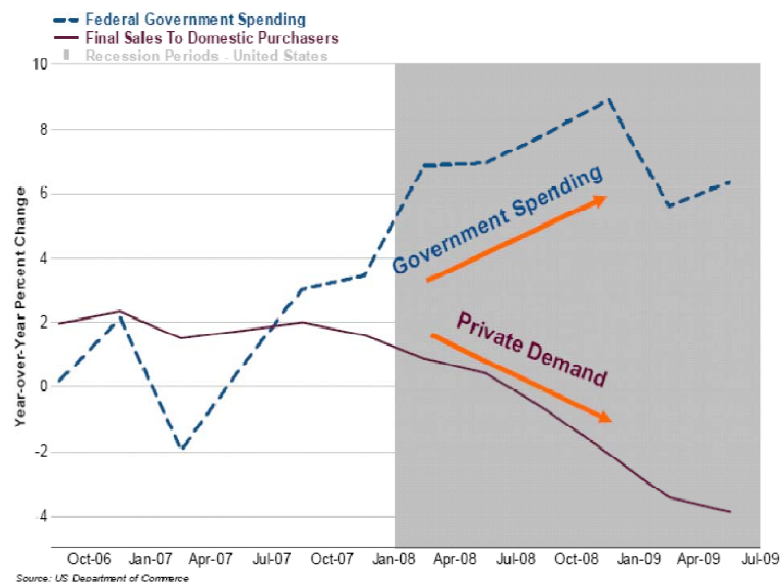
What effect will this government spending and resulting deficits have on the dollar? During the recent credit crisis there was a flight to the dollar, as investors sold off investments with any perceived risk and bought dollars and U.S. Treasuries.

CHART 1: UNPRECEDENTED CONTRACTION IN BANK CREDIT

United States: Total Loans in Bank Credit
(13-week percent change at an annual rate)



Shaded area represent: periods of U.S. recession
Source: Haver Analytics, Gluskin Sheff



Source: US Department of Commerce

Source: Payden & Rygel

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However, as investors believe that the worst of the financial crisis is over, the dollar has weakened.

Another likely reason for this decline is the fiscal and monetary policies of the U.S. Government. As deficits continue to rise, our largest lenders (foreigners) are questioning the prudence of our policies and have openly suggested that alternatives are needed to the dollar as a world reserve currency. It is likely that the downward trend in the dollar will continue until we get our fiscal house in order. We have benefited from the dollar being the de facto world's reserve currency for many years. Lower interest rates and the ability to transact business in dollars are just two of these benefits.

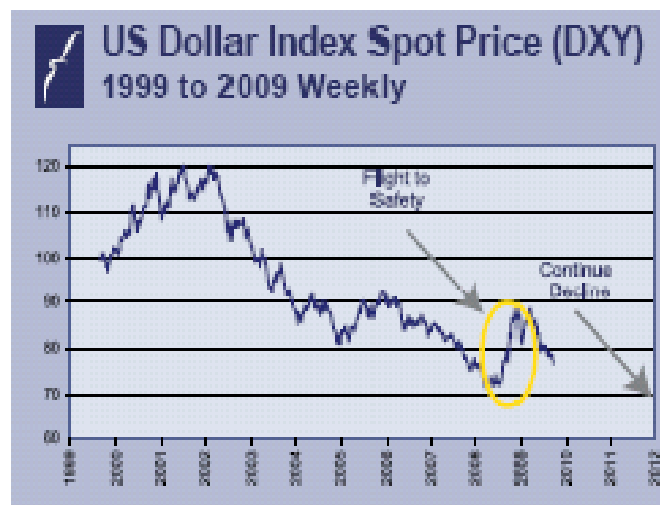
It will be nearly impossible to replace the dollar as the world's reserve currency in the near term. More and more, however, substituting the dollar is being discussed among our largest trading partners. If the dollar is replaced as the world's reserve currency, we will likely experience higher interest rates and higher inflation risk.

We see two possible outcomes in the near future. If the economy recovers and the government no longer needs to provide stimulus, the dollar should stabilize. Inflation may become more of a concern and risk and we should expect the artificially low yield curve to likely shift upward. If the economy doesn't respond, savings will likely to continue to increase, the dollar will proceed on its downward spiral and the U.S. stock market will remain quite volatile, responding sharply to new economic data.

WHAT SHOULD AN INVESTOR DO TODAY?

Given our scenario of a high likelihood of a falling dollar and a generally weak US economy there are several plans of action to consider.

- Make sure your portfolio is well diversified to include meaningful exposure to international investments. Holding foreign securities denominated in non-dollar currencies should benefit your portfolio in a declining dollar environment.
- Focus on select groups of U.S. stocks. Historically, the small to mid sized stocks have significantly outperformed large-caps in the type of economic and regulatory environment that we are in due to their nimbleness and flexibility. In addition, companies whose scope is global and export-oriented, given the competitive advantage of a lower dollar.
- Invest in uncorrelated assets relative to stocks and bonds, such as commodities and gold.



Source: Sprott Asset Management

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In the strategies where we have discretion, we have tilted the portfolios to take advantage of these trends that we have outlined. For example, in our Dynamic Allocation strategy, during the quarter we elected to sell our high yield investment after registering a nice gain and invest in international small-cap and US small/mid growth. We also made a tactical shift in the core fixed income portion of the portfolio by shifting from passive index ETFs and into actively managed funds to take advantage of the opportunities in the bond market. Similar moves were made in our Low Correlated Growth strategy. We will continue to make incremental adjustments when warranted and focus on future opportunities as they unfold.

FOCUS ON WHAT YOU CAN CONTROL

We know that the financial crisis we all went through will have long lived implications for all of us, and that the government will be making shifts that will directly impact your financial life. Whether it's higher taxes, or reduced benefits or higher interest rates and inflation, all of these will of course require investment shifts, but more importantly they will probably require changes in your financial life.

The completely personalized Financial Master Plan that our advisors create for our clients helps them to gauge how these outside forces will affect the financial life of our clients and how each person needs to adapt their life or their expectations in response to these shifts. The biggest benefit is the genuine sense of control our process has given the families that work with us.

The process is remarkably simple and yet immeasurably impactful: you establish your long-term goals, implement specific action plans, and measure your progress on an ongoing basis.

We all hope the recovery will continue, however, our experience tells us that after such an extreme run-up in the market over a relative short timeframe, there can be some turbulence afterward. And there surely is no better time to review your complete financial situation than after a recovery. It is quite likely that you can accomplish most of what you'd like without taking undue risks.

At United Capital, we are all working hard to provide you with investment and financial planning solutions to assist you in navigating through these difficult and sometimes confusing times.

Thank you for your continued trust and confidence,

INSERT SIGNATURE

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GLOSSARY

S&P 500 Index – A broad based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a capitalization-weighted, unmanaged index that is calculated on a total return basis with dividends reinvested. The S&P 500 represents about 75% of the NYSE market capitalizations.

S&P MidCap 400 – A broad based measurement of changes in stock market conditions based on the average performance of 400 small to medium sized US companies. It is a capitalization-weighted, unmanaged index that is calculated on a total return basis with dividends reinvested.

S&P SmallCap 600 – A broad based measurement of changes in stock market conditions based on the average performance of 600 small US companies. It is a capitalization-weighted, unmanaged index that is calculated on a total return basis with dividend reinvested.

MSCI Emerging Markets – The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2009 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EAFE Index – The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. As of June 2007 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

Dow Jones U.S. REIT – Dow Jones Indexes measures the performance of the Real Estate Investment Trust (REIT) industry through a comprehensive family of REIT indexes designed to capture the performance of all sectors of this asset class. The Dow Jones REIT Composite Index contains all the publicly traded U.S. REITs in the Dow Jones U.S. stock universe. The Index, which is further subdivided into equity, mortgage and hybrid sub-categories, also serves as the selection universe for the REITs in the investable Dow Jones U.S. Select REIT Index and the Dow Jones Real Estate Index.

Goldman Sachs Commodity Index – A composite index of commodity sector returns which represents a broadly diversified, unleveraged, long-only position in commodity futures.

SPDR Gold Shares – The objective of the SPDR Gold Trust is for the shares to reflect the performance of the price of a gold bullion, less the trust's expenses.

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