



CENTER FOR FINANCIAL PLANNING, INC.

REGISTERED INVESTMENT ADVISOR

INVESTMENT QUARTERLY UPDATE ~ April 2010

The following will serve as content for the Center for Financial Planning, Inc. Quarterly Investment Newsletter.

Economic Outlook

Interest Rates

At the Center for Financial Planning we are now actively seeking appropriate alternatives to bond strategies that tend to underperform in rising rate environments. Interest rates remain little changed. The following is an excerpt from a Raymond James economic commentary:

"Economic conditions are likely to warrant an exceptionally low level of the federal funds rate 'for an extended period'. The economic conditions that the Federal Open Market Committee is referring to include low rates of resource utilization (principally, an elevated unemployment rate), subdued inflation trends (low core inflation), and stable inflation expectations."

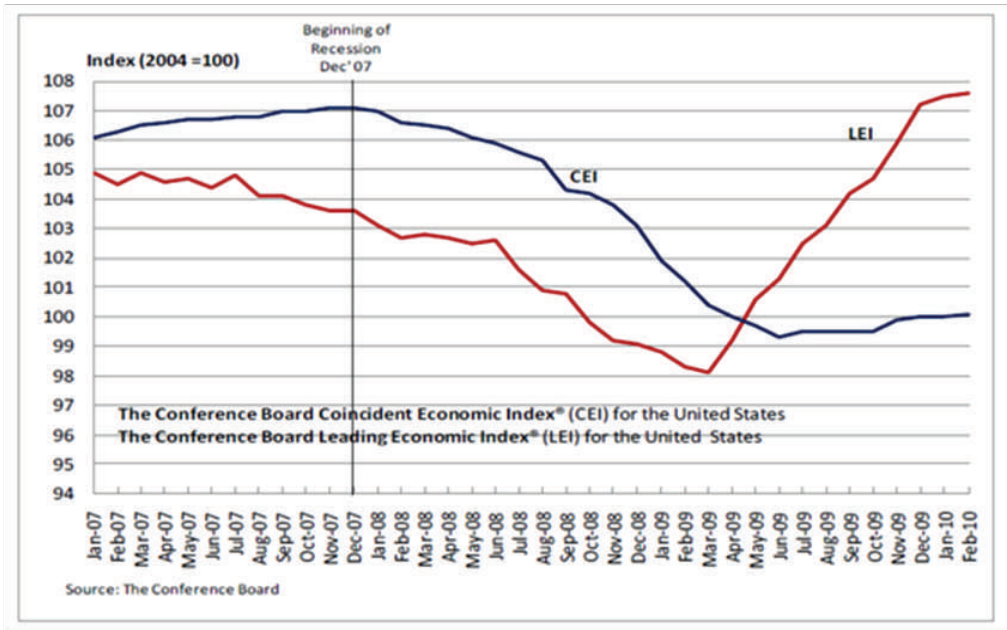
Even though there is little risk to rate increases currently, we want to be in a defensive position before the tides turn. Before interest rates start to rise, there may already have been bond price decreases.

At the end of March, the Federal Reserve will stop their purchases of Mortgage Backed Securities. The Fed stepped in and started buying these as the market was collapsing and they were the only buyers at that time. This has had a major impact on mortgage rates over the past 15 months decreasing them by 0.8-1.0%. We could notice an increase in mortgage rates now that this program is expiring.

Leading Economic Indicators

Leading Economic Indicators (indicated by the LEI line of the chart below) continue to rise as they have for the past year. The rate at which they are rising appears to be stabilizing. The coincident economic indicators (indicated by the CEI line of the chart), which change at about the same time as the overall economy, have also continued their positive trend. There are no major surprises here. This is consistent with the moderate economic recovery that we have seen.

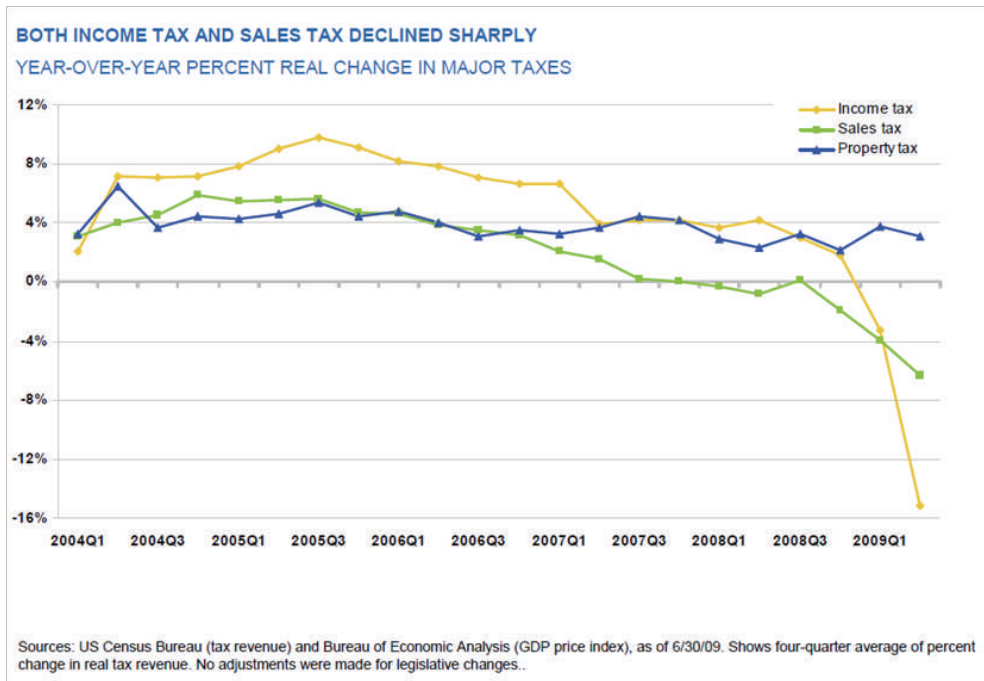
Indicators Point to a Slow Recovery



(Note: The Conference Board publishes leading, coincident, and lagging indexes designed to signal peaks and troughs in the business cycle for nine countries around the world. The Conference Board Leading Economic Index (LEI) is an American economic leading indicator intended to forecast future economic activity while the Conference Board Coincident Economic Index (CEI) is an American economic coincident indicator intended to reflect current economic activity.)

Municipal Bonds

Turning to state and local municipalities, the effects of the recession and economic recovery on municipal budgets are likely to be deep and long lasting. Income from sales and income taxes has dropped off significantly in the past year as shown by the following chart.



While we don't anticipate a high amount of defaults among municipal issuers, we do feel it will be important to maintain a diversified bond portfolio over the coming years, paying particular attention to credit quality and geographic diversification. *(Note: Diversification does not ensure a profit or protection against loss in declining markets.)*

Sovereign Debt

There has also been a lot of buzz lately regarding sovereign debt concerns overseas. A sovereign bond is a debt security issued by a national government within a given country and denominated in a foreign currency (not necessarily the issuing country's currency if it is unstable). Most notably the recent crisis with Greek debt, and the potential bailout by some of the European Union countries and the International Monetary Fund, has received a lot of press. This is an issue we are watching but its effect on world markets has been contained thus far. We are keeping our eye out for the concerns lest they spread to other countries.

Financial Industry Re-Regulation

The Financial Meltdown of 2008 was caused largely by the deregulation of the banking industry. Enormous and excessive leverage by the largest investment firms was allowed by the SEC starting in 2004, capping off deregulation of the financial industry since the 1980's. Repealing Glass Steagall in 1998, which separated FDIC depository banks from riskier investment banks, allowed a market downturn to spill over into the credit markets. In 2004, banks in all states were allowed to ignore stricter state lending laws in favor of federal laws that favored subprime lending.

A situation in which Financial Institutions make large profits if their risky actions pay off, but where the taxpayer gets stuck with the bill when they do not, seems untenable and is simply contrary to US capitalism. As the list of mistakes continues to grow, we are strongly in favor of a thoughtful re-regulation of the financial industry in an effort to avoid a repeat of the meltdown we recently experienced. However, we also note that uncertainty breeds fear in markets and we encourage transparency and clear communication of legislation to avoid market disruptions.

Quarterly Investment Commentary

Following a rough January for most equity asset classes, February was a welcome turnabout with even stronger results in March. The US market has continued its leadership compared to the diversified overseas markets during this quarter.

An exceedingly strong 12 months in equities from market lows has dominated conversation. Headlines speak of the incredible pace of the market and investors who cashed out in '08 and early '09 are left wondering if they will ever have an entry point to the market. Given the exceptional strength of market returns near-term, we want to remind you that volatility and choppy markets are entirely within the realm of possibilities and could occur at any time.

Bond returns, too, have been at near record levels, especially in riskier bond assets. While credit-sensitive debt's valuation has risen and opportunities appear to be diminishing, it would not appear to be safe to simply return assets to traditionally low-risk investments like Treasury bonds or CD's. We believe that the current fixed income landscape will make a buy-and-hold strategy much more challenging than previous time periods.

More than anything else, we have focused on bonds in our discussions this year. Bond Investors have been beneficiaries of a bull bond market that extended for the better part of three decades. Given soaring debt, fiscal and monetary challenges, and the potential for inflation, we know that the next decade or two will likely be very different. Our research currently focuses on managers who navigated well in rising rate environments. Past performance does not predict future returns. Therefore, you may want to consider also exploring bond asset classes whose performances are not necessarily linked to the fate of US rates-this includes categories such as bank loans, foreign debt, strategic income, or inflation-linked bonds. Keep in mind, it is important to discuss these investments with a financial professional prior to investing.

Global Tactical Assets

Center for Financial Planning has spent the last 25 years primarily investing in traditional equity and fixed-income asset classes, and strategies and fund managers that operate within the boundaries of these asset classes. We have sometimes used strategies with a balance between stocks and bonds. A few have used a more "tactical" approach: increasing and decreasing stocks, bonds, cash, and other assets based on market conditions. We feel that this type of investment style may benefit our clients in upcoming challenging market conditions. We are interested in what these managers will be able to offer in the market landscape going forward.

Allocating for the Future

In spite of the relatively neutral position, the discussion amongst the Investment Committee and Planners has been as intense and robust as during any period in our history rivaling the fall and winter of 2008. We are prepared to adjust our neutral positioning when we deem appropriate.

We are preparing and planning for the many headwinds we may face as investors. While we focused much of our commentary above on rising rates or market corrections, there are other scenarios on our mind such as the possibility of a bubble in China, currency depreciation here or abroad, inflation, deflation, a double-dip recession, government intervention, and municipal debt problems. We are less enthusiastic about the multiyear return potential from either stocks or bonds at current valuations than we were a year ago, but we do believe that investing offers more attractive return alternatives to cash long term. The value of these opportunities may be much lower than it was this past year, where absolute returns were unusually high; but in a low-return environment they can make a material difference.

Technology Enhancements and Your Investments

Along with an incredibly intense year of research focusing on asset allocation and portfolios, we have invested unprecedented time and resources on a significant upgrade to our investment management technology. In the fall of 2009, we purchased cutting edge portfolio management software from Tamarac, Inc. in Seattle, Washington. Tamarac has been an industry leader in the recent and growing field of "rebalancing" software; and the functionality of this software for us goes well beyond the simple rebalancing of portfolios as described below.

Coming out of the bear market, there were many things we felt we did well.

Alternatively, we also identified two areas we thought we could improve our operational efficiencies:

- One bottleneck was the ability to analyze portfolios once we had determined that a change in allocation was appropriate. The rapidity of the market downturn caught us by surprise and significant decisions had to be made for each client's portfolio. We wanted a way to be able to make changes more quickly in the future.
- Also, there was a bottleneck in the execution of recommendations. After careful analysis of our client' portfolios, the recommendations had to be communicated with a verbal authorization as response. This created challenges, too. What can you do if the client is unreachable?

We decided we needed to enhance our systems and management style to address these two critical areas. Essentially, we wanted a better, more efficient means of distributing our investment advice. We believe that the Tamarac software has the answers to both issues. With this system, we are able to identify a recommended asset allocation based on one's particular needs (so it's customized: no change there) and compare it to the underlying positions in the investment portfolio on a daily basis.

While this type of technology has been in existence for a while in different iterations, the past versions required each investor's portfolio to look exactly the same as everyone else with that investment model. We knew that cookie-cutter approach was not what our clients wanted or needed. Some custom benefits we felt were critical:

- Customized to our clients needs: If a client has a company or inherited stock they do not want to sell, we can hard-wire that into the system so that it is part of the overall allocation analysis and will continue to hold indefinitely.
- Sophisticated cash management: If a client always needs a certain amount of cash on hand, we can set accounts up to maintain that level of available cash. And if the client writes a big check, we will get an alert that the portfolio needs to be reviewed.
- Aggregated accounts, when appropriate: We are able to manage your assets as a household within the program reducing the number of holdings required in each individual account and providing for the possibility of more tax-efficient investing. If a certain account or group of accounts has a different need than others in the household (like education or inheritance), those accounts can be segregated from the overall allocation and managed on its own.

Needless to say, we are very excited about this. Since November, we have been transitioning client accounts to the program and while we had planned for a very slow migration with a target of about \$75 million in the system by March, the ease of conversion and our desire to serve as many of our clients within this new and better system as quickly as possible has quickened the pace. We are now managing \$170 million within the program. That's already about 25% of our firm assets.

To solve the second bottleneck (the need for verbal authorization), this program requires a change in the way your accounts are managed. This program uses discretionary management. In essence, with a discretionary account a client would authorize us to make changes on their behalf per the terms of their Investment Policy Statement. As each change occurs, the client would receive notification from us describing the change and reasoning. And, of course, they would continue to receive the trade confirmations from Raymond James.

What wouldn't change with the new program?

- Clients will still receive the Center's top notch investment advice-the best ideas and investment research generated by our Planners and our Investment Committee.
- Client accounts at Raymond James would not change in appearance or reporting. Our attention to your unique needs would only be enhanced.

For our current clients, your financial planner will likely be discussing this new program with you. Although it will not be appropriate for every one of our clients, we believe that for most of you, this new system will only enhance our delivery of financial planning and investment management services. If you would like to have the discussion in advance of your next meeting, please contact us.

(Note: Investors should carefully consider their unique situation before authorizing trading authority to an investment professional in a discretionary account. Investors should monitor discretionary account activities to ensure they coincide with their investment objectives.)

Quarter Quotes

"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." -Sir John Templeton, Mutual Fund Pioneer

"Bonds have seen their best days..." -Bill Gross, Founder of PIMCO, Managing Director and co-CIO in the Newport Beach office

"Even many of the pessimists are agreeing that the stock market is for the first time in a very long time significantly undervalued, and that portends more favorable long-term expected returns. When markets turn upwards, we know that they move quickly, and that you have to be there to participate in the rally." -Center for Financial Planning Investment Commentary, March 2009

Investment Returns

Benchmark Performance Returns (% Total Return)		
US Stock	1st Quarter	1 Year
S&P 500 Daily Reinv	5.39%	49.77%
S&P Midcap 400	9.09%	64.07%
Russell 2000	8.85%	62.77%
Dow Jones Ind Dly Reinv	4.82%	46.93%
International		
MSCI EAFE	0.22%	49.99%
Bond		
Barclays Aggregate Bond	1.25%	7.69%
Barclays Muni. Bond	1.25%	9.69%

Definitions: The S&P 500 is a broad index of large company stocks managed by Standard and Poor's. The Russell Mid Cap Index is the bottom 800 stocks in the Russell 1000 Index. The Russell 2000 Index is a measure of the smallest 2000 companies in the Russell 3000. MSCI EAFE is a broad measure of international stock performance in US dollars and is managed by Morgan Stanley. Barclays US Aggregate is an index of bonds within the US. All Barclays indexes were formerly managed by Lehman Brothers and currently owned by Barclays. Dow Wilshire REIT is an index of US Real Estate Investment Trusts managed by Dow Jones and Wilshire. The S&P GSCI (formerly the Goldman Sachs Commodity Index) currently comprises 24 commodities from all commodity sectors.

Sincerely,

**Center for Financial Planning
Investment Committee (3/31/10)**

Center for Financial Planning, Inc.
Investment Committee

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