

## LarsonAllen Financial, LLC Special Report

As you know, equity markets around the world have witnessed a very swift and severe sell-off over the past two weeks. After two major bear markets in the past decade, investors are very skittish and more inclined to sell at the first signs of trouble. The primary issues behind this market sell-off are the Sovereign European credit issues and China intentionally slowing its economy to mitigate a property bubble. We have highlighted the Sovereign debt issues in past commentaries as a risk to the global economic recovery efforts. In addition, a new risk has surfaced that China, which has served as a major growth engine over the past few years, is in the midst of a real estate bubble and may see its economy slow later this year.

The global capital markets are currently trying to determine what impact these two issues may have on global growth and corporate earnings in the second half of this year. It seems that there is a growing consensus that Europe is moving toward a double dip recession later this year. U.S. Treasury Secretary Geithner is meeting with European leaders this week to share the plan implemented by U.S. policy makers in 2008 which lead to renewed confidence in the U.S. credit markets. This may involve the disclosure of credit risks within large money center banks throughout Europe similar to the “stress test” performed here on large U.S. banks. Policy makers are walking a thin line and will need to take appropriate steps to prevent the current crisis from spreading into an outright “panic.”

From our standpoint, the systemic risks had risen in late 2009 as the government guarantees, capital injections, quantitative easing (money printing) and various liquidity programs resulted in escalating government debt across the developed countries including the U.S., Japan and Euroland. The Southern European countries face both a liquidity problem, which the European Central Bank and IMF have addressed near term, AND a solvency problem which will eventually need to be addressed. Because of the rising risks, we began to de-risk our client portfolios in late 2009 primarily through the use of alternative equity strategies such as long/short and hedged equity. While we underperformed somewhat in early 2010 when the stock markets kept rallying, we kept our risk focus at the forefront. It is times such as these that support the age old concept of asset diversification. Bonds have rallied strongly serving as a shock absorber to a well diversified portfolio. In addition, non-correlating alternative investments such as long/short equity and hedged equity portfolios have held up extremely well during this downturn. As the correction continues to unfold, opportunities will be created. We are carefully monitoring valuations and other indicators for the next buying opportunity. If you have any questions, please feel free to contact your LarsonAllen Financial Relationship Principal. We appreciate your business.

*This Market and Economic Update is prepared by LarsonAllen Financial, LLC. If you have any questions, please call 1-888-925-2926 and ask to speak with a Senior Wealth Advisor.*

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