RDM CAPITAL ASSOCIATES

WEALTH MANAGEMENT

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TO	**:**	**CLIENTS AND FRIENDS**
FROM	**:**	**RDM CAPITAL ASSOCIATES**
RE	**:**	**MARKET COMMENTARY**

We believe we are currently witnessing the end of the great bond bull market which began approximately 35 years ago with double digit inflation and the prime interest rate in the high teens (~18%), and the beginning of the age of equities, where revaluations of market securities will drive the popular indexes to approximately 29,000 on the DJIA and over 3000 on the S&P 500 by the end of the present decade. Incidentally, it is worth noting that over the course of the last decade treasury bonds posted a 5.3% overall return versus a 1% return for the S&P 500. Investors, however, would do well to stay focused on potential future returns, given the changed domestic and global economic circumstances, and not assume that past performance is at all representative of future results.

With estimates of future inflation increasing, the Federal Reserve quantitative easing program coming to an end, and the federal government running unsustainable budget deficits which threaten the country's AAA rating, we expect the short term federal funds interest rate to begin to rise at the end of 2011 and gradually move to the 5% level by year end 2015. This should lead to sub par market returns for bond funds and fixed income investments. Therefore we urge our clients, friends, and investors in general to be selective in their choice of fixed income securities and at the same time recommend that they keep to maturities/duration of no more than two years.

Bond/fixed income securities generally have two components: yield and price fluctuation. Because the price of fixed income securities moves inversely to the yield, even safe fixed income investments can produce capital losses in a rising rate environment, unless held to maturity. The longer the period to maturity of a bond, the greater the negative impact on the capital component of such a bond of an increase in interest rates. A useful rule of thumb indicates that for every 1% increase in interest rates, the price of a bond will decline a percentage equal to the duration to maturity remaining in the bond. We are, therefore, extremely cautious in allocating any new funds to fixed income securities beyond the very short term, given the scenario of increasing interest rates outlined above.

How fast and how soon is inflation expected to arrive? Considering the amount of money central banks, including our own Federal Reserve, have pumped into the global financial system, many market participants rightly fear that inflation is just around the corner, and thereby lies the current tale of gold, silver, and other industrial commodities. We are of a different opinion. Despite the fact that the Federal Reserve has increased the size of its balance sheet to over $ 3 Trillion through a series of quantitative monetary easing measures, the funds released have not found their way into the consumers economy but rather into the

banking industry reserve accounts, where they idly sit. Stricter capital standards required by monetary authorities world wide, banks' reluctance to lend due to the real estate mortgage debacle of the past few years as well as the recent recession, and the on going American consumer effort to deleverage, have combined to slow down the economic recovery and monetary expansion.

Furthering the argument against immediate rampant inflation is the current status of the American labor force. With unemployment at around 9% and industrial capacity utilization at less than 80%, employee wages, which are inextricably tied to inflation, are not expected to rise in any meaningful way any time soon. As a result we continue to believe that any measurable inflation spike is still two to three years away, assuming the Federal Reserve fails in its effort to reduce the money supply in a timely fashion, something the central bank has continuously asserted it would do.

Gold and silver: "Caveat Emptor." Both precious metals are in the midst of the mother of all bubbles. We know the end is near when any second rate charlatan, or failed broker, or talking head on TV touts the value and importance of investments in gold and silver, and mail boxes are full with tout sheets about precious metal investing. What these charlatans fail to mention is that the price of gold today is most definitely an emotional price, having nothing to do with the economic value of the metal, which we estimate to be in the $600-$650 range. The price of gold, as well as silver and other commodities is determined and traded in dollars and, as a result, it represents the opposite face of the current dollar devaluation. We believe, however, that once the issue of the federal deficit and national debt are hopefully and successfully tackled by Washington over the course of the next few months, the value of the dollar should reverse course and, with it, the price of gold, silver, oil, and other industrial commodities should therefore be adjusted downward.

A summary and a forecast:

1) Equities will outperform fixed income securities this year and for the next decade
2) We will emphasize equities with healthy current dividend yields
3) We will emphasize large cap equities, both value and growth
4) Equities are cheap relative to other asset classes at this stage of the business cycle
5) We will favor energy, financials, health care and industrial sector investments
6) Inflation will remain subdued at ~ 1.5% at year end 2011
7) Interest rates will begin a slow but steady rise by year end with Fed Funds at ~1%
8) Gold and silver will crash and oil will trade at $75 to $80 a barrel at year end
9) DJIA will end at 13,442 and the S&P 500 will finish at 1,441
10) GDP will grow at 3.25% by year end

As always all comments are welcome.

Sincerely,

Bruno La Rocca,
President