



Integer Wealth Advisors Group, LLC

Advise, Guide and Protect

Third Quarter 2012 Market Commentary

Here is an excerpt from our last quarter commentary:

We continue to be in favor of an allocation weighted toward US large cap companies which include dividend paying securities as a part of a well-diversified strategy. Despite the looming changes in the tax code prudent analysis is always necessary to make sure investors are minimizing taxes to the greatest extent possible for the best after-tax return. Therefore, in light of potential future rises in taxes on dividends, complete absence of dividend paying securities because of potentially higher taxes is not prudent. We still don't know what the state of the tax laws will be in 2013, and if investors invested solely on the basis of avoiding taxes the concept of "total return" would be relegated to the dustbin of history.

A Few Year End Challenges

Never in the history of our 20 years in the business have we faced a more daunting year-end than this year. To say we have uncertainty is an understatement: A November election, a looming "financial cliff" that includes tax increases and automatic budget cuts, and the grand-daddy of them all...the end of the world! According to the Myan calendar, this will be our final quarterly commentary for eternity since on December 21st, the polarity of the earth reverses, gravity is suspended and we float off into space. We want to thank everyone for their support over the years! Now, there is always some "silver lining" to bad news...no need to worry about the other stuff coming on December 31st because you won't be here! Maybe "the Ben Bernank" is a believer in the calendar and that is why he opened the spigots with QEIII (A.K.A. QE Infinity) in September?

In a poll released in September of this year of 887 CFO's surveyed, 129 (14.5%) listed "credit markets/interest rates" among the top three concerns facing their corporations. In contrast, 43% listed consumer demand and 41% cited federal government policies. Analysts summarized their findings as follows: "CFOs believe that a monetary action would not be particularly effective. Ninety-one percent of firms say that they would not change their investment plans even if interest rates dropped by 1 percent, and 84 percent say that they would not change investment plans if interest rates dropped by 2 percent."

The same might be said for the consumer side where the Fed is trying to engineer a rebound in housing by lowering mortgage rates. Unfortunately, the Fed doesn't control something called "Dodd-Frank" which has created such tight lending standards that getting a mortgage, or refinancing an existing mortgage is akin to "being guilty until proven innocent". This is not necessarily a bad thing since lax underwriting standards caused the housing mess, but the pendulum has moved too far in the other direction. Consumers can expect underwriting to easily take 60-90 days, if not longer, and be required to produce exceptionally well-documented paperwork. The pendulum has swung from the loose standards of the early decade to ultra conservative standards that reduce the margin of error for the banks to infinitesimally small numbers. Banks do not want to buy-back a back loan so the best credit rates are only going to the best credit risks.

This communication was prepared by Integer Wealth Advisors Group LLC and is for information purposes only. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. Any dissemination, distribution or copy of this communication without prior approval from Integer Wealth Advisors Group, LLC is prohibited.



Integer Wealth Advisors Group, LLC

July: The Dow started the quarter at 12880.09, following a negative second quarter for the major averages. Notable events included the continuing severe drought affecting a good part of the United States, a freak weather storm in the northeast that knocked power out for days, and the continuing “Greek Drama” in Europe. ECB President Mario Draghi calmed the markets with a statement that “policy makers will do everything in their power to ensure a survival of the Euro”. Corporate earnings in the U.S. continued to be positive with companies such as Google, IBM, GE and Intel all beating analyst estimates. Crude oil was up from earlier lows, holding steady around \$91 per barrel, and gold was approaching the \$1,600 mark after having fallen in the prior months. By the end of the month, the Dow was up to 13075.66, while the S&P posted a gain of 1.39%. The drought continued into July pushing corn prices up 60% from June 15th.

August: The Federal Open Market Committee (FOMC) met and repeated their “exceptionally low levels for Fed Funds rate through late 2014”. The anniversary of the famous downgrade of U.S. debt was greeted with the U.S. economy adding 163,000 jobs and the Dow finishing up 217 points to 13096, a three month high. Despite the rise in the markets, the drought continued, causing disruptions in shipping on the Mississippi and causing farmers to cull their breeding herds to 60 year lows. The political season heated up at Mitt Romney selected Paul Ryan as his Vice Presidential running mate. By the end of the month, the markets were continuing in a rally that “gets no respect.” Gold rallied above \$1640 per ounce, oil advanced to \$97 per barrel, and on August 22nd, the Fed minutes from July were released suggesting another round of monetary stimulus was forth coming. The GOP concluded their convention in Tampa Bay.

September: Labor Day brought the summer to a close and the opening of the Democratic Convention in Charlotte. On September 6th, ECB President Mario Draghi reiterated that the “Euro is irreversible” and announced a bond buying program of member sovereign bonds. Called the OMT (Outright Monetary Transaction) Program, the announcement stoked stock prices around the world, with the Dow gaining 244.52 points. This was followed by the September 13th FOMC announcement that QEIII would be a reality. The Fed would begin buying \$40 billion of agency mortgage backed securities every month until they announced they would stop. The Fed Funds rate would be held at 0-0.25% thru mid-2015, extending out further than the previous announcement of “thru 2014”. Assuming the policy holds through 2015, the U.S. will have seen seven full years of effectively zero percent interest rates. The Dow jumped 206 points to a 4 year high, finishing at 13539.86.

DOMESTIC EQUITIES

Index	Returns for the Quarter	YTD
S&P 600 Small Cap	5.3%	13.8%
NASDAQ Composite	6.18%	19.62%
Dow Jones Industrial Average	4.17%	9.98%
S&P 500 Index	5.76%	14.56%

(Returns are without dividends. Period Ending 9/30/2012)



Integer Wealth Advisors Group, LLC

<u>Company</u>	<u>Percentage Weight</u>	<u>Year to Date 2012</u>
S&P 500		14.56%
Energy	11.3%	5.8%
Materials	3.5%	10.0%
Industrials	9.8%	9.2%
Consumer Discretionary	11.0%	20.0%
Consumer Staples	10.9%	10.3%
Health Care	12.0%	15.8%
Financials	14.6%	19.9%
Technology	20.1%	20.6%
Telecommunications	3.2%	21.0%
Utilities	3.5%	1.1%

Source: Standard and Poor's (www.standardandpoors.com)

Style Return Box for the Third Quarter 2012

	VALUE	CORE	GROWTH
LARGE	6.24%	6.32%	6.33%
MID	4.75%	5.41%	6.01%
SMALL	6.72%	5.39%	4.09%

Information provided in the above chart represents the quarterly returns of the S&P indexes of iShares Class of funds with dividends reinvested.

INTERNATIONAL

The international marketplace was a reminder that not only is it a hard place to make money, it's a dangerous place for Americans to work and live. Nothing draws that home harder than the murder of Ambassador Christopher Stevens and three other Americans at the U.S. consulate in Benghazi on September 11th. Begun under the ruse of a video mocking the prophet Mohammed, the attack there, and at other Consulates around the Middle East, remind us that economic events are not the only ones that can turn a market negative.

Despite the ongoing drama of European economic news, the markets were able to mount a rally on the pronouncements of ECB Mario Draghi that "the Euro was irreversible" and announced the OMT Program that would buy sovereign bonds of member countries. On that news the Dow gained 244 points and the S&P 500 added 28.68. The Europeans continue to work on their fiscal issues and seem to be making some progress, but only time will tell the degree of their success.

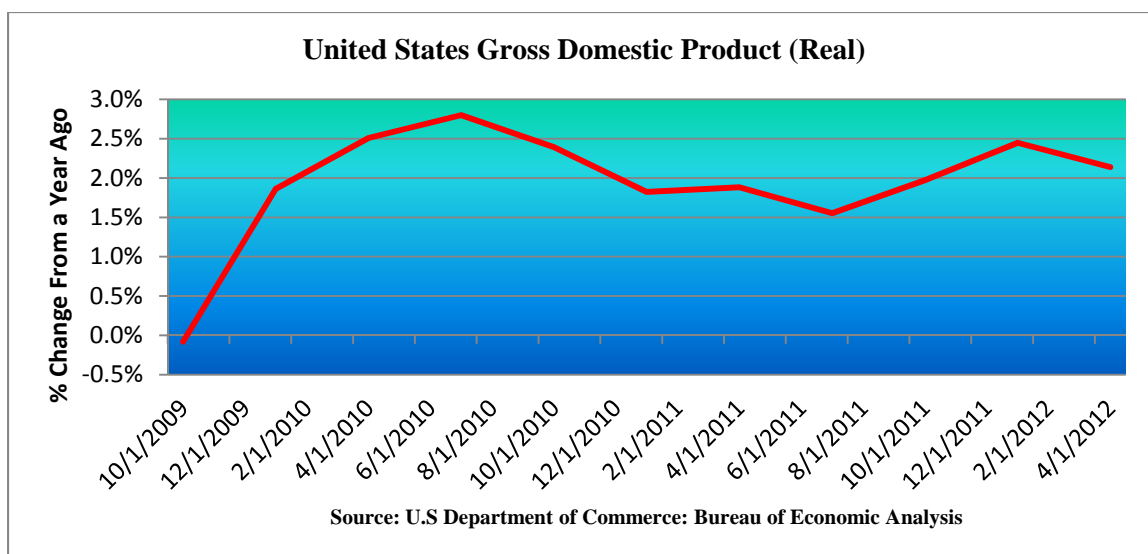


Integer Wealth Advisors Group, LLC

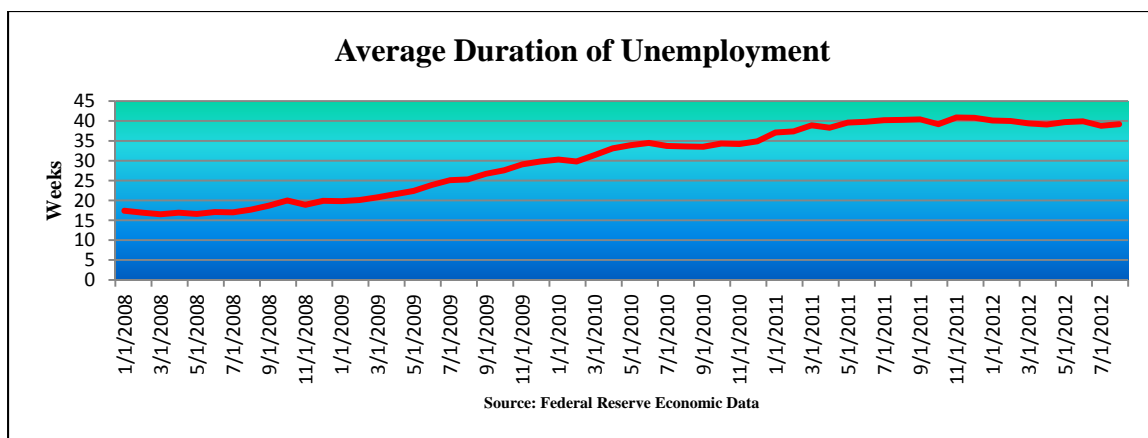
Closer to home in this hemisphere a small country made news by effectively “stiffing” creditors holding their bonds. In late August the tiny country of Belize confirmed that no payments would be made on the country’s 2029 bond unless deals were reached with creditors seeking a delay of 15 years for interest payments, or forgiving 45% of what is owed. If not reached there would be a default of \$543 million.

The Velcro Economy – Stuck Going Nowhere

Gross Domestic Product, the measure of goods and services produced in the United States has been stuck in a middling range of less than 3% for the past several years on an inflation (real) adjusted basis. It just feels like it is stuck on Velcro. The Fed’s quantitative program is targeted to boost GDP above the 3% range.



EMPLOYMENT

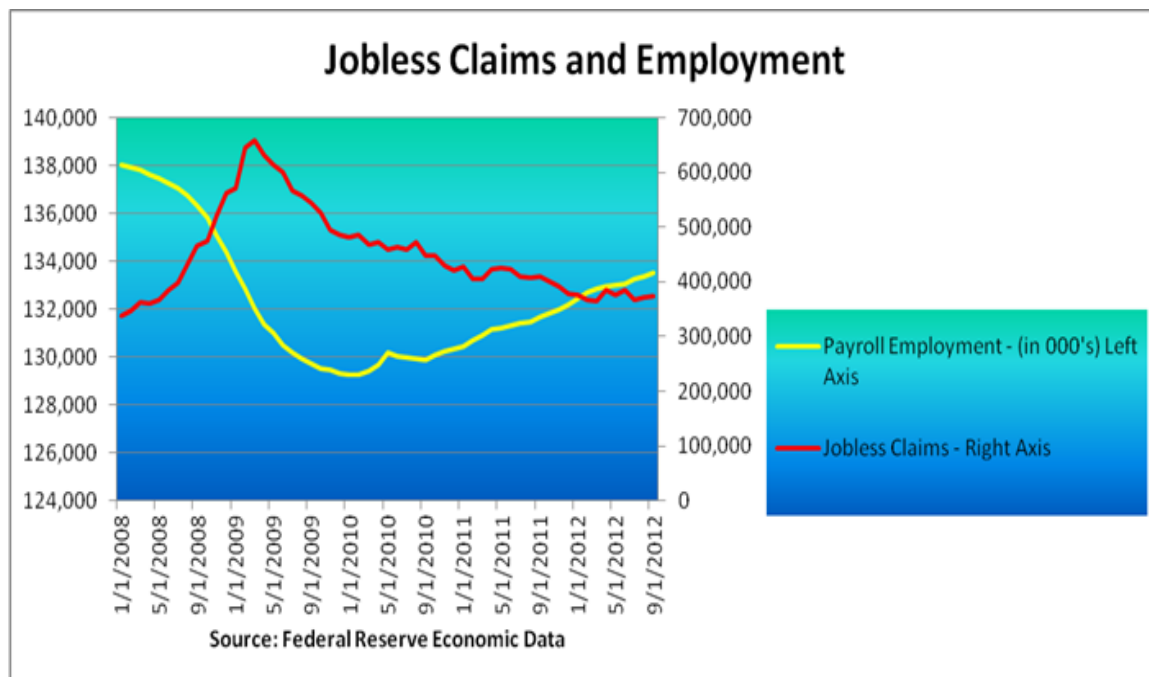




Integer Wealth Advisors Group, LLC

If a picture is worth a thousand words then the chart above saves us a lot of ink. It simply tracks the average length of unemployment in weeks (left axis) since the beginning of 2008. Clearly, the trend has not been going in the right direction.

The graph below highlights a slightly more encouraging trend in that employment shows a slight move higher and unemployment claims moderating. Over the past year the government has been shedding a few more workers (jobless claims on right axis) and private employers have added a few more workers (employment on the left hand axis). Clearly neither graph is rising or falling at rates that suggest a pick-up in the economy, rather, it highlights an economy that is more in “neutral” than “drive”.

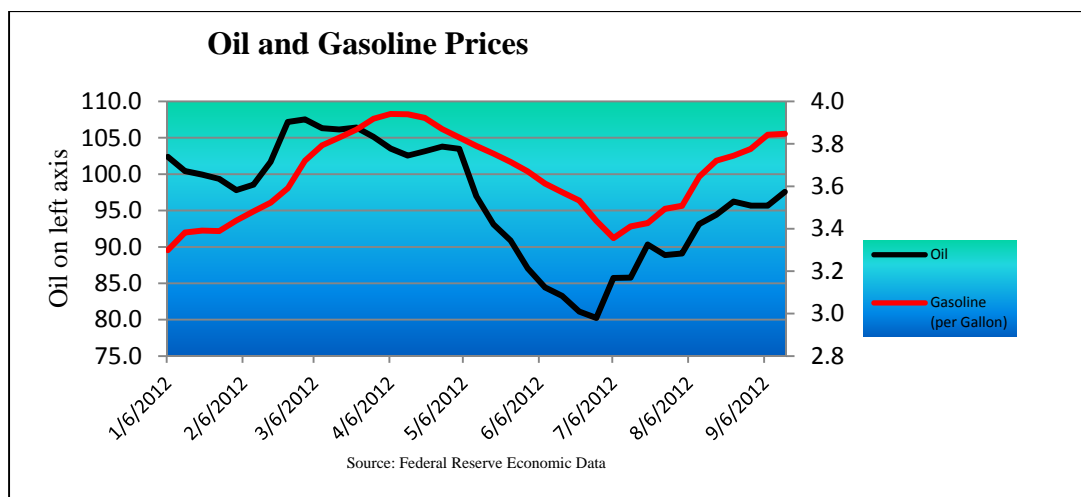


ENERGY

Energy is a direct hit to the consumer's pocketbook. In the last commentary we noted how the drop in fuel prices had benefited the consumer. We recall pump prices during the 4th of July holiday being at the \$3 per gallon level. The rise from there reflects a couple of developments including some glitches in refineries, along with a hurricane that blew into the Gulf Coast causing a shut-down of production. The refinery issues along with mother-nature highlights a problem with the energy complex in the United States. Refining is concentrated along the Gulf Coast, primarily in Louisiana and Houston and no new plants have been built in the past several decades in the United States.



Integer Wealth Advisors Group, LLC



FIXED INCOME

In our last commentary we highlighted the fact that Treasury bonds were yielding below the dividend yield of stocks and that longer dated bonds were not as attractive on a yield perspective as investing in high quality dividend paying securities. That perspective has not changed over the past quarter. With the Fed's newest quantitative easing program, savers are being brutalized while debtors are being rewarded. But this approach is what the Fed believes will lift the economy and lower unemployment. We can only hope. Savers understand the issues all too well, but the idea that QEIII has introduced is to push down the rates on the 30-year and to let the short-end of the curve float higher. We will see if the intended effect is being achieved with the passage of time. We are certain, however, that those depending on fixed income have only two alternatives: reach for more yield by owning dividend paying stocks, or reach for more yield by buying longer-dated bonds.

Of the two, we think reaching for yield in longer-dated bonds is the more risky strategy. The measure of risk in a bond is duration which measures the change in market price of a bond relative to changes in interest rates. The rule of thumb is that for every 1% change in interest rates (up or down), the price of a bond will go up or down by its duration. For example, if a 10-year Treasury bond has a duration of nine years and interest rates increase by 1%, the bond's price will fall by 9%.

One might say, "So what, I get all my principle back at the end of the period." This is true, but it also means that an investor is "locked in" to receiving a lower flow of cash from the bonds because they cannot exchange their current bond for a new bond with higher yields without taking a loss. That is why investors must be cautious about stretching for yield in their bond portfolio.



Integer Wealth Advisors Group, LLC

TAXES

In 2011 the President signed into law the temporary 2% reduction in an employee's share of his or her personal contribution to social security. This has been in effect for 2011 and extended through the end of this year. While this was intended to spur the economy, we have not seen such impact two years into the reduction. What is interesting about this reduction is that every salaried employee has received a tax benefit at the detriment to the social security fund regardless of earning level.

How will these funds ever be repaid? While these funds are supposed to be repaid using General Revenue, has this occurred and where does this come from...no doubt from new debt. While we agree with tax relief this is the type of tax relief that should be limited to those that it can truly impact. Do really high income earners need a \$2,000 tax break? This is the kind of tax cut a social benefit such as Social Security cannot afford.

To get the economy moving in the right direction we need to expand the base of tax payers, enact real tax reform that lowers rates by closing loopholes in the code, and encouraging businesses to invest. That approach is better than giving tax cuts like the Social Security Tax that will be hard to take back in an election year.

IN SUMMARY

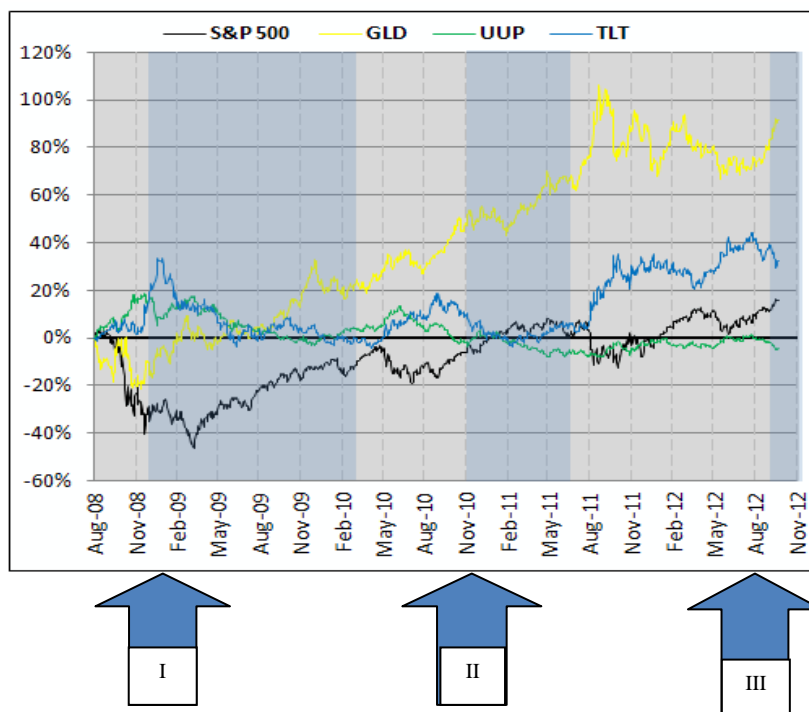
Market Theme – Don't Fight the Fed!

In politics there is an expression regarding newspapers: "Never start a fight with a man who buys ink by the barrel". The same could be said about investing...don't fight the man who owns the printing press. Perhaps Mr. Bernanke did not want to be out done by ECB President Mario Draghi's program in announcing the QEIII program of buying bonds to stoke the economy. We are on record here to say that we doubt the intended effect will result of lowering unemployment and stabilizing prices, but you can't argue what it has done for stocks.

The chart below comes courtesy of Schaeffer's Investment Research. The chart tracks the impact of QEI and QEII on the S&P 500, Gold (via the GLD Exchange Traded Fund), the United States Dollar (UUP), and the 20-year U.S Treasury (TLT). Anyone who has been to Europe since 2008 will understand what this chart is saying about the dollar. The biggest benefactors have been long bonds and gold. But before you go out and jump into the gold market notice the volatility of gold between QEII and QEIII. How do we translate those lines? Quick answer: The buyers of gold are not sure the printing presses are going to translate to lower unemployment and inflation in the shorter term if economic growth is not picking up. But that might just be a short-term "blip" as more money is poured into the system and the engine of growth sputters just like an engine flooded with too much gas.



Integer Wealth Advisors Group, LLC



What does all the QE mean, then, for the economy? Most pundits, including some non-voting members of the FOMC suggest it will end badly if the intended impact of these programs does not work. The Fed continues to push interest rates lower to help with refinancing mortgages as a way to build more confidence. Unfortunately (or maybe fortunately), underwriting standards have returned to way-too-strict pre-bubble guidelines and even the most creditworthy borrowers are subjected to a “financial colonoscopy” that leaves them as woozy as the real thing.

If the Rubik’s-cube of employment and mobility is not solved the intended effect of quantitative easing will not be achieved and we will be left with a pile of debt and few options to pay it all back. That leaves politicians with no options but the one we face on January 2, 2013, the so called “fiscal cliff”: taxes and cuts to spending.

Portfolio Monitoring:

Uncertainty breeds fear and fear in the markets is not good for investors. We are facing a great deal of uncertainty as the end of the year approaches. Will taxes be increased, will capital gain rates go up, if so, do we take gains now and avoid bigger tax increases in 2013? What happens if you sell the capital gains now and the tax is maintained at its current level meaning you generated a tax on the portfolio that was not necessary? We have some thoughts on the subject of portfolio monitoring as the year-end approaches.

First, we would suggest a technique that served our clients very well in 2008...tax loss harvesting while maintaining the strategic allocation. This involves selling losses in the



Integer Wealth Advisors Group, LLC

portfolio and immediately repurchasing “like/kind” securities in the same space. For example, let’s say you own the Vanguard 500 Index fund and it is carrying an unrealized loss at the moment. Sell the position and buy the Russell 3000 index fund which allows you to maintain your position in the large cap equity space. The loss will be even more valuable in future years when taxes are expected to go higher.

Next, check the strategic asset allocation to make sure the mix of stocks, bonds and cash still suits your risk/reward tolerance. Too often individuals let “their winners run” without checking the original reasons for ownership. Things change over time and it is a good time to make sure you are still comfortable with your allocation and make changes as appropriate.

Finally, avoid market-timing activities. The techniques outlined above are designed to enhance after-tax portfolio performance, not to promote some type of market-timing. Trust us when we say, you cannot successfully time the market, otherwise, you should go to Vegas and play Roulette and continuously bet “red or black”.

Manager Monitoring:

We did not have any manager issues in the third quarter of 2012.

Equities:

Corporate earnings continue to be reasonable and companies are either: increasing their dividends, plowing money back into operations to increase efficiency, buying back their stocks or buying market share. As we noted earlier, fighting the Fed is a difficult proposition, however, blindly following the crowd is a deadly one. As we approach the end of the year, investors must review their asset allocation and make sure they are still comfortable with their risk versus return.

Equities have rallied with the benefit of stimulus, but let’s remember why we own stocks. An investor owns stocks as a claims holder to the dividends and growth potential of a company. That proposition is predicated on the theory that consumers will have sufficient assets to buy. Our concern today is that the coming tax increases and cuts in spending will hurt growth in 2013 and companies with weaker balance sheets will bear the brunt. Quality is the key and we favor U.S. large cap equities.

Integer Wealth Advisors Group, LLC

Atlanta Office:
3440 Blue Springs Road, Suite 403
Kennesaw, GA., 30144
(o) 770.974.2787

Philadelphia Office:
790 Penllyn Blue Bell Pike, Suite 203
Blue Bell, PA., 19422
(o) 215.643.6490