Contact: Cassandra Péan
301.296.5146
cpean@advisorbenchmarking.com

AdvisorBenchmarking™
best practices for a better business from RYDEX | SGI

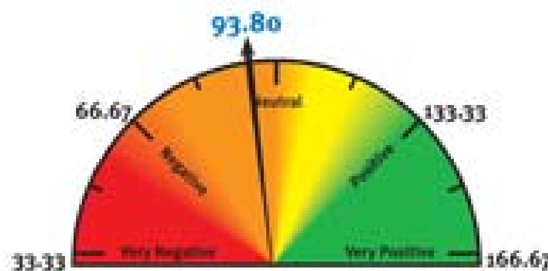
Advisor Confidence Index Reaches Its Lowest Level in the Last 16 Months

Advisors increased allocation to emerging market equities and cash

August 30, 2010…Rockville, MD… In August, advisor confidence in the economy and the stock market continued to lose traction, sinking to its lowest level in the last 16 months. The Advisor Confidence Index (ACI)—a benchmark that gauges advisor views on the U.S. economy and stock market—was 93.80 in August, down approximately 9% from 103.12 in July. These findings are in line with Schwab's latest semiannual survey, in which nearly half of advisors said their clients are less optimistic about the market and economy than they were a year ago. Another indicator—the University of Michigan consumer sentiment survey—took a dive in early July. The lowest the index had retreated was October 2008 when it stood at 79.07. The Congressional Budget Office said that the $814 billion stimulus program boosted the U.S. economy by as much as 4.5% in the second quarter of this year and that weaker-than-expected consumer spending growth and a "depressed" housing market had slowed the pace of the U.S. recovery.

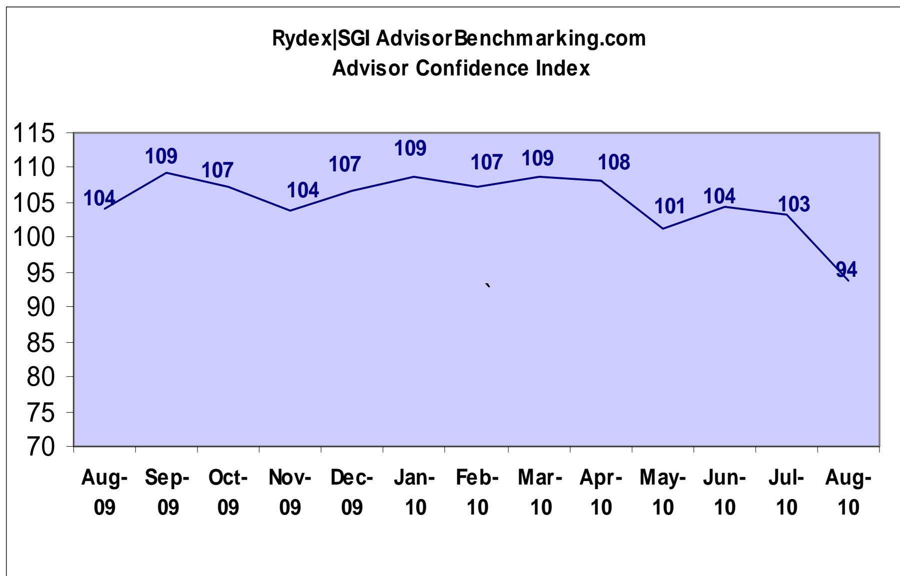
In August, Rydex|SGI AdvisorBenchmarking also surveyed advisors about their changes in asset allocations. The responses revealed that about a third (32%) of advisors increased allocations to emerging market equities and cash. Almost one fourth (23%) of survey participants increased allocation to the non-U.S. (developed market) equities asset class, 30% of advisors decreased allocation to U.S. large-cap growth asset class and 16% increased allocation to high yield bonds.

Advisor confidence, which declined in July, decreased dramatically in August as advisors continue to grow increasingly more pessimistic outlook about the economy. "The economy will continue to sputter until we begin to see meaningful job growth. Unfortunately, that is unlikely to happen until we see a consistent increase in demand for products and services – the proverbial chicken and the egg," said George Cheatham from American Financial Consultants Inc. in Louisville, Ken.



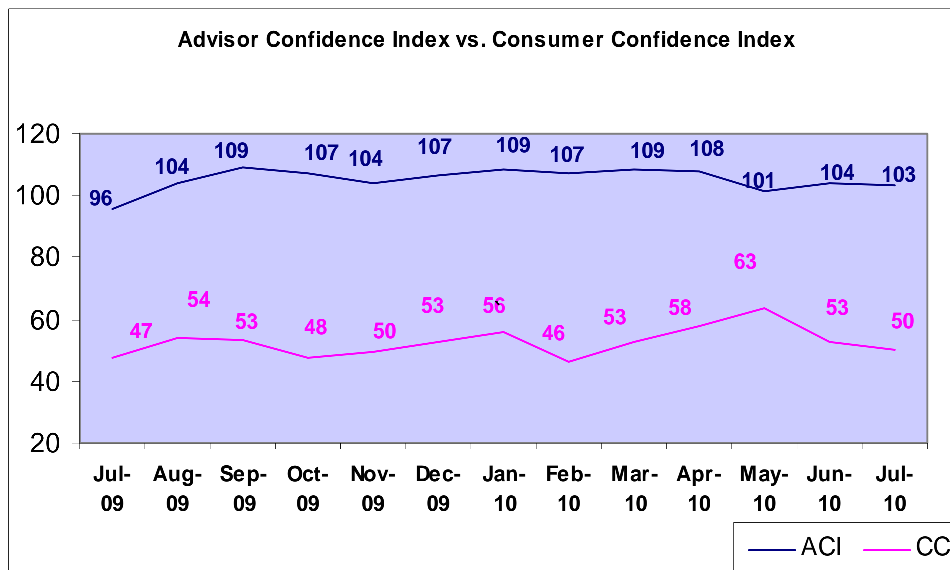
Three out of four measures of the ACI decreased in August, with the most pessimistic forecast centering on the 12-month economic outlook. A closer look at the components reveals the following:

Current economic outlook	-12.90%
Six-month economic outlook	-11.68%
12-month economic outlook	-12.00%
Stock market outlook	+0.44%



Advisor vs. consumer confidence

The Conference Board Consumer Confidence Index®, which had declined sharply in June, retreated further in July. The index now stands at 50.4 (1985=100), down from 52.9 in June.



"While the term 'recession' is a technical term of art that requires two consecutive quarters of decline in GDP and the recession may technically be over, economists

should take a random walk through various businesses and listen to managers and owners say how terrible business has been and continues to be. Then they should survey the unemployed and find out how many have left the unemployment statistics yet are still unemployed. The economy isn't good and will only grow worse if hiring doesn't increase very soon."

-- David Cramer, Cramer Financial Services

"The economy will continue to sputter until we begin to see meaningful job growth. Unfortunately, that is unlikely to happen until we see a consistent increase in demand for products and services–the proverbial chicken and the egg. Over time, long-term demand will be created by the world economies, especially China, India and South America, so look for opportunities within these markets and from companies with exposure to these developing markets. Also, look for interest rates to remain steady for the next eight to 12 months going forward. Look for continued solid returns in the municipal bond market, TIPS and the floating rate sectors, not to mention in solid dividend-paying stocks and REITs."

-- George Cheatham, American Financial Consultants Inc

"While a significant economic slowdown is now baked into the cake, it is still uncertain as to whether the slowdown will transition into a new recession. We expect the Fed to get increasingly aggressive as employment figures deteriorate in the coming weeks/months, which could result in further currency and commodity volatility. Outside of some cheap blue chip high-quality stocks, it is increasingly an environment for trading rather than investing."

-- James Dailey, TEAM Financial Managers

"There continues to be a struggle of financial news. The national economic numbers such as unemployment, debt, housing, consumer confidence, etc. remain weak. On the other hand, corporate earnings and revenue are growing steadily. This dichotomy will be evident with a volatile stock market as investors switch their focus almost on a daily basis."

-- Jim Elder, ElderAdo Financial

"We continue to state that investors are not being compensated for the risk of equities. The sweet spot of the market is high-yield and preferred securities. Seasonal patterns will continue to keep the equity market in check through September. We continue to believe that the 'Sell in May' crowd will start to drift back as we enter the fall months. Another round of earnings and corporations are in good shape. Corporations will do three things with the cash: 1) buy their competition or additional lines of business (example: Dell, Intel), 2) increase their dividend payout and 3) increase their capital expenditures and invest in their business. If they are going to hire, they will do this with 2011 budgets and, given the uncertain outlook and political landscape, not before then. Most sentiment readings are washed out (consumer, small business). Seasonal patterns could yield a nice move for the market going into 2011. Since 1914, the Dow has gained 49.2% on average from its mid-term election year low to its subsequent high in the following pre-election year. If July 2nd was the low at

9,686.48, a 49.2% move into 2011 would put us back over 14,400. We are hoping for an "average" move into 2011."

-- Kenny Landgraf, Kenjol Capital Management LLC

"Growth will return, and likely more sustainable growth will occur outside the U.S. in developing countries that will not source a great deal of imports from theU.S."

-- Rob Siegmann, Financial Management Group

"We are at a very confusing crossroad with signs pointing to the risk of both inflation and deflation. Investors are reaching for yield and will pay the price at some point. In the meantime, alternative strategies in the form of hedge funds are a logical way to generate reasonable risk-adjusted returns during a period of very high uncertainty."

-- Gregory Horn, Persimmon Capital Management

"We have deflation or inflation or none of the above. Our feeling is there is simply too much money in the system to ward off inflation in the next 24-36 months. Better to have inflation hedges in place now then to wait, as it's difficult to obtain flood insurance when you have water up to your knees."

-- Paul Bennett, c5 Wealth Management

About Rydex|SGI AdvisorBenchmarking, an affiliate of Rydex|SGI:
Rydex|SGI AdvisorBenchmarking is a research and analysis center focused on the registered investment advisor (RIA) marketplace. Every year through its survey web site, www.AdvisorBenchmarking.com, the firm conducts multiple surveys of advisors, covering a host of business management and investment management practices. The findings and analysis of the data are then released to the marketplace as annual studies, quarterly research notes, monthly newsletters and a confidence index. The service is aimed at helping advisors grow and enhance their firms by comparing how their businesses fare against other advisors. Advisors also learn best practices of the most successful advisors in the business. AdvisorBenchmarking is an affiliate of Rydex|SGI.

The analysis on Rydex|SGI AdvisorBenchmarking.com is based on the number of completed surveys and reflects only information from those surveys. This information is intended to be general in nature, and these overviews are no substitute for professional, legal or consulting advice. This information should not be construed as advice from Rydex|SGI Advisorbenchmarking, Inc. or any of its affiliates.