



INSIGHTS

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NOTICE

Please note that the phone numbers for our San Diego and Las Vegas offices have changed:

San Diego: 858.946.0205
Las Vegas: 702.479.2799

CLIENT SPOTLIGHT



MUSEUM of NORTHERN ARIZONA

Founded in 1928, the Museum of Northern Arizona is one of the great regional museums of our world, surrounded by tremendous geological, biological, and cultural resources in one of the Earth's most spectacular landscapes.



Nine exhibit galleries present Native cultures, tribal life ways, natural sciences, and fine arts. The Archaeology Gallery explores prehistoric cultures and displays a kiva mural fragment from an ancient Hopi village called Awatovi; the Ethnology Gallery highlights the living cultures of the region—the Hopi, Navajo, Pai, and Zuni people; the Kiva Gallery offers a modern kiva mural by Hopi artists Michael Kabotie and Delbridge Honanie; the Navajo Textiles Gallery displays changing examples of weavings; the Babbitt Gallery features Southwestern

Native ceramics and jewelry; the Geology Gallery features a life-size skeletal model of Dilophosaurus, a carnivorous dinosaur from the region; and three exhibit galleries offer exciting, new displays that change frequently.

Since 1930, the Museum's annual Heritage Program has fostered communication and the exchange of ideas between cultures by offering an in-depth mix of art, music, dances, and Heritage Insights programs. Each year, the Museum hosts Zuni, Hopi, and Navajo Festivals of Arts and Culture, and Celebraciones de la Gente, a Day of the Dead celebration honoring Flagstaff's Hispanic pioneer families.

The Museum's mission is to inspire a sense of love and responsibility for the beauty and diversity of the Colorado Plateau through collecting, studying, interpreting, and preserving the region's natural and cultural heritage. This region is home to ten Native tribes and encompasses 130,000 square miles of Arizona, New Mexico, Colorado, and Utah, including the Grand Canyon, the Painted Desert, Bryce and Zion National Parks, and Grand Staircase-Escalante National Monument.



The Museum houses over 600,000 artifacts in its permanent collections of anthropology, biology, geology, and fine arts; extensive federal and tribal research collections; and significant library and archival collections. The Museum's new Easton Collection Center is a Platinum LEED (Leadership in Energy and Environmental Design) certified building, with living roof and state-of-the-art storage facilities. It aims to be a place that is sensitive to cultural needs, is aesthetically pleasing, and provides enhanced access for visitors and researchers.

To learn more about the Museum of Northern Arizona, please visit their website at <http://www.musnaz.org>.

FEATURE ARTICLE

Is China in a Bubble?

by George Galat V, Intern
Miller/Russell & Associates



China has played an integral role in global investment returns over the past decade and has been a key driver of growth. China alone accounts for nearly 40 percent of global demand in commodities such as aluminum and crude steel.

However, signs of a dramatic slowdown in China are increasingly evident, according to speaker and lecturer Dr. Vikram Mansharamani, a national contributor to CNBC, Fortune, the New York Times, and the Wall Street Journal, as well as a lecturer at Yale University.

In a bold prediction, Dr. Mansharamani outlined key indicators that imply a bubble formation in China. These indicators mirror an eerily similar situation in the U.S. in 2008. The indicators include:

- Rising real estate prices
- Increased and mandated lending
- Perpetual shovel-ready projects to drive up GDP
- World-record prices achieved at Sotheby's auctions by Chinese investors

Evidence of these indicators can be found in one of the world's largest malls, the South China Mall. It has an

impressive seven million square foot layout with room for approximately 1,500 businesses. Six years after the mall's opening it sits virtually empty with a 99% vacancy rate. Ironically enough, however, the mall's management has proposed to expand the mall by another two million square feet in spite of the high vacancy rate. As such, Dr. Mansharamani asserts, there is a clear disconnect between expectation and reality in Chinese assets and consumer demand.

Consequently, frontloading the supply of infrastructure and real estate will lead to an eventual slowdown in China's growth sooner or later, he says. Naturally this begs the billion-dollar, perhaps trillion-dollar question: When will the bubble burst? The answer is not so transparent, primarily because of massive cash reserves and surplus capital China has accumulated from its export-driven economy. China could continue "manufacturing" GDP for years, possibly decades. Therefore, at this point in time, it is best to understand and account for the risk involved.

At Miller/Russell, we are currently well positioned to benefit from continued growth in emerging markets, while at the same time not overexposing client portfolios to China specifically. We continue to monitor the Chinese economy and its impact on the rest of the world relative to our investment strategy.

AROUND THE FIRM

Mary Ann Hennelly-Favata, CFP®

Mary Ann joined Miller/Russell in March of 2004. She is a native New Yorker who moved west to California for her college years. Mary Ann's quest for a new adventure eventually brought her to Arizona where she met and married her husband of 15 years, James. James is an architect who was also born and raised in New York. Together they have two beautiful daughters, Danielle age 13 and Ashley age 10. Both girls are "A" students with their black belts in karate who enjoy swimming, horseback riding, and skiing.

Mary Ann works as a Portfolio Manager and holds the Certified Financial Planner™ designation. She has a passion for estate planning and tax minimization strategies. Her past experience managing the estates of entertainment clients helped develop her affinity for problem solving. Mary Ann enjoys periodically revisiting client estate plans to ensure that they are still in line with her clients' ultimate goals.



Managing Risk

by Nathan Erickson, CFA®, Portfolio Manager
Miller/Russell & Associates

At Miller/Russell, we devote a tremendous amount of time to managing risk in investment portfolios. Some might say this is a newer topic, since the 1990s ignored risk, the early 2000s sought it out, and the financial crisis exposed it. Now “risk” has become one of the buzz words in the financial media, and everyone is concerned about his/her risk, and how to manage it.

Have you thought about how you manage risk in your personal life? Most people have an insurance policy on their house and possessions to manage the risk of loss. Most of us wear a seatbelt to manage the risk of serious injury from a car accident. Perhaps you are among the many parents who use a GPS tracker on your child’s cell phone so you can manage some of their risk as well. In reality, risk management is everywhere. We may just not label it as such.



Former Chairman of the Federal Reserve, Alan Greenspan, called the financial crisis a “once-in-a-century” event. While much literature and debate exist regarding the frequency and probability of such crises, they remain unpredictable and extremely consequential. As an investor, there is a high likelihood that in your investing lifetime some sort of major market drawdown (-50% or more) will occur, perhaps more than once. In fact, we have experienced two significant market drawdowns in the past ten years.

We believe our role as an advisor is not to predict or avoid experiencing these drawdowns; attempts at timing the market have proven extremely unsuccessful. Instead, we look at ways to take intelligent risk in portfolios, and at the same time consider various forms of “insurance” to manage crisis risk.

Adequate diversification is the first step in risk management. No investor should have 100% of their total assets in one asset class. It is a recipe for disaster. We have heard countless stories of people who sold all of their equities and fixed income to leverage their real estate holdings in the 2000s, only to be left with a fraction of their original net worth. A diversified portfolio among various asset classes significantly reduces your overall risk.

To hedge the risk of a crisis, our Investment Policy Committee allocates a portion of most client portfolios to an area we call “multi-strategy”. Within this space, we hire various managers to do two things: one, generate excess returns relative to the risk they take (get overpaid for risk), and two, invest in securities that profit during a severe market decline. Essentially this portion of the portfolio should zig when the rest zags. We hope we don’t experience another crisis event for many years to come; however, we believe multi-strategy will make these rare, unpredictable events less consequential to our clients’ portfolios.



“A man’s true wealth is the good he does in this world.”
Bendixline

“The art is not in making money, but in keeping it.”
Proverb

“Time is more valuable than money. You can get more money, but you cannot get more time.” Jim Rohn

“The only thing money gives you is the freedom of not worrying about money.” Johnny Carson

“I have enough money to last me the rest of my life, unless I buy something.” Jackie Mason

“What’s the use of happiness? It can’t buy you money.”
Henny Youngman

“The trick is to stop thinking of it as ‘your’ money.”
IRS auditor

“Money, if it does not bring you happiness, will at least help you be miserable in comfort.”
Helen Gurley Brown

SECOND QUARTER MARKET REVIEW

Dog days of summer

The second quarter began with the broad equity markets carrying the momentum of a strong first quarter and a continued string of positive earnings announcements through the end of April. However, the debt problems in Greece and the Congressional stalemate over the increase of the federal government's debt ceiling began to make the investment axiom "sell in May and go away" sound like quality investment advice! But just as the quarter was about to close, Greece decided to swallow some more castor oil and implement additional austerity measures. That, along with a heavy dose of patriotism heading into the 4th of July weekend, caused the market to stage a late June rally. The S&P 500 index closed the quarter at 1,320.64, basically breaking even for the quarter, but still up a healthy 6.02% for the first six months.



Small caps actually dipped into negative territory in the quarter, with the Russell 2000 index finishing down 1.61%, but still maintained a slight small cap premium for the year, up 6.21%. International developed stocks ended the quarter with the strongest results, as the MSCI EAFE index managed to recover from the supply problems resulting from the Japanese earthquake and continued ongoing EU debt issues to post a gain of 1.83% and 5.35% for the year. Central bank rate increases, which attempted to dampen inflationary pressures from the seemingly insatiable demand for commodities, managed to assuage investors' appetite for emerging market stocks as the MSCI EM index was down 1.04% for the quarter, and up just 1.03% for the year.

The U. S. bond market posted strong second quarter results with the BarCap US Aggregate Bond index returning 2.29% in spite of the Federal Reserve's decision to end its U. S. Treasury purchase program. The 10-year Treasury yield which ended June at a yield of 3.18%, almost 30 basis points lower, once again demonstrating the need for fixed income as a diversifier to mitigate risk in the equity markets. In the wake of the cessation of QE2, the lingering debt issues in the developed economies, and softening global growth, it remains unclear where long term rates will go from here.

As we move into the dog days of summer and through the rest of 2011, the plethora of global headwinds will continue to work through to their economic conclusions with varying possible outcomes. As always, we are constantly evaluating and re-evaluating our clients' investment portfolios to be sure we are tailoring risk to each client relative to our long-term outlook.



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Disclosure: Our goal is to share information with our readers that may help them better manage their personal financial situation. However, the information provided should not be construed as tax or legal advice.