Dear Client,

We have not sent out a lengthy newsletter for some time and instead of late are focusing on sending out shorter commentary on a more frequent basis. We will resume the longer newsletters in the future.

Fairholme Fund

You may have noticed that the Fairholme Fund (FAIRX) has been dramatically lagging the market this year. We have been closely monitoring its performance and are prepared to make a change when we deem it prudent. At this point, we are holding off on making any chances due to the fact that Bruce Berkowitz, the portfolio manager of the fund, has had such a phenomenal track record over the last 10-11 years. During that time period, he has beaten the S&P 500 index by 7.8% annually, including last year, which he beat by 10%. Unfortunately he is lagging it this year by 11%. We have investigated the reason behind this significant underperformance and determined it is the direct result of his significant over-allocation to Financials, which as a sector has lagged the S&P 500 by about 10% this year. Thus, his contrarian style of management (going “against the grain”) of deep value investing which has been his strength in year’s past has this year seemingly becomes his weakness. If this were any other manager, we would have already made a change to a manager of better performance in the recent term. However, we feel his past merits deserve a few additional months to see if he can “right the ship”. If he is unable to do so, then we have some potential replacements available which we have already identified.

Economic Conditions

Despite the Federal Reserve's Quantitative Easing program and the Stimulus package passed two years ago, economic growth appears to be stalling. GDP is growing at a rate around 1.9% and unemployment rising to 9.1%. In order for unemployment to drop, most economists agree that GDP growth needs to be closer to 3% annually, which has been the long term average growth rate for the US economy. It is our opinion that the economy is stalling in part, due to the great uncertainty the Federal Government is creating regarding future regulations and tax policy. With various issues still outstanding, including the EPA, the new financial regulation bill, and the health care bill, businesses are reluctant to hire new personnel, since they cannot properly estimate how much future regulatory and/or employment costs will be. Additionally, most of the stimulus funding was misdirected towards bailing out state budgets, leaving minimal remaining resources available to stimulate job creation, particularly in the private sector.

Presently, corporations still have enormous amounts of cash on their balance sheets, which in our view, suggests a strong reluctance to invest in new ventures. We do not think this circumstance will change in the near term and we believe no meaningful change will occur for 2-3 years. Prices in our financial markets are beginning to reflect this reality via the recent correction we’ve experienced. Though we do not expect a major market decline, we also do not believe it will see significant growth in the short term. Your portfolios are well positioned to face these conditions with the significant allocations we have made to alternative investments and the volatility asset class. If inflation increases, the significant allocation we have to natural resources and REIT's which both perform well in inflationary periods should help performance.

While we understand it can be fun to attempt to prognosticate future events relating to the economy and the stock market, we know though that basing investment decisions upon guesses is always fraught with risk. Evidence of such can be found via a recent academic study we viewed, which compared economists predictions to what actually happened. Not surprisingly, results revealed that the majority of predictions were inaccurate, which suggests even most experts are woefully inadequate at prediction.

Model Allocations

You may recall from previous announcements that we were involved in a software project to create a program that will allow us to have available a tool that eliminates many of the known weaknesses existing in Markowitz's original Modern Portfolio Theory. We are running many simulations using the tool and expect to use it to alter our models over the next couple of years. Due to the complexity of the statistics involved, we believe our new program will require a significant amount of time and effort to fully understand the ramifications of the results we are seeing. You can expect to see gradual changes in models as we understand the results.

Stonegate News

Dean Shah has now joined Stonegate after a lengthy career in engineering most recently at Indian Point Nuclear Reactor. He has been designing , analyzing and operating nuclear reactors for 30 years having received a Master's Degree in Mechanical Engineering. Dean is currently enrolled in the CFP program at Farleigh Dickenson University. Dean will be a financial analyst assisting us with financial planning and special projects in portfolio management.

Cary was recently quoted in the Orlando Sentinel's on May 8th in an article titled “Jittery investors tempted to chase risky returns” by Richard Burnett, and also on June 12th in the Orlando Sentinel's “Ask an Expert” column. We have posted her quotes on our website for your perusal here:

http://www.stonegatewealth.com/content/news-articles

Cary and ***Tom*** recently attended Ed Slott's Elite IRA Advisor Workshop on May 13th-May 15th to study up on the latest advanced IRA planning techniques. Their new knowledge will prove invaluable to you as clients in the near future.

Steve and ***Tom*** will be at Sobel and Company on July 13th and 27th presenting our approach to Financial Planning and Portfolio Management. Sobel and Stonegate will be a business affiliation. Sobel is a large accounting firm with over 120 employees.

As always please call us with any questions.

Regards,

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