

THE SWEETWATER PERSPECTIVE

Our Views on Investing & the Economy

January 2007

After a lull through the summer, Sweetwater's unique strategy *fired on all cylinders*, ending the year with a flurry. As discussed last quarter, we believed the fourth quarter would be the best of the year, and it certainly was! Why so? Many of our investments moved up, including US equities, foreign stocks, Market Neutral and certainly our Master Limited Partnerships (MLPs). Even though we believe this year will be another strong one for the MLP sector, we expect a pullback near-term. One reason for our support for MLPs – we see few compelling alternatives for *income seeking* investors. Long time income havens like bonds, US Real Estate and utility stocks are either fully valued or offer paltry yields. I recently heard on CNBC that 10,000 baby boomers are retiring every day in this country and there are 70,000,000 boomers. What does a retiree need when they retire? Income! In our view, MLPs with their generous yields (many as high as 7%, mostly tax deferred), coupled with substantial growth potential and low correlation to other asset classes, remain the best choice for income seekers.

Just behind our MLPs' performance were our emerging market investments in South East Asia, Eastern Europe and especially Latin America. We believe it's time for a break in this arena and have subsequently taken some profit off the table. We hope to re-enter these positions at lower levels, but for now we are cautious. Long-term, we see the emerging markets continuing to be some of the highest growth regions on the planet. Their growth continues to be fueled by the emergence of the middle class – similar in effect to how baby boomers spurred the US economy after World War II. Citizens in Brazil, Russia, India and China (BRIC) have newly found discretionary income and will likely spend that income in a similar fashion to US consumers. In our view, ripple effects of a strong consumer segment should boost prices on a wide array of commodities - thus, we don't believe the commodity bull market is over.

How about Real Estate? Even though Real Estate here at home appears fully valued, we believe there are attractive opportunities overseas. A primary tenant of our overall strategy is to build a well diversified portfolio through an optimal blend of non-correlated assets. International Real Estate fills that role. We

have been analyzing different regions of the globe including Europe, Japan and the developing countries of the Pacific Rim. When attractive entry points present themselves, we'll partake through publicly traded REITs.

We are in the third year of a Presidential election cycle which has historically been very favorable for stocks, likely occurring because the political party in power pumps money into the economy to enhance their chance for re-election. Believe it or not, this has actually been a pretty accurate forecaster.

From a fundamental perspective, we believe the US market remains undervalued. Although equity prices have risen, their underlying earnings have grown considerably faster. Currently, the S&P 500 is trading at 16 times 2007 estimated earnings, well below the historical average of 20. Based on PE ratios, stocks are still cheap. Throw in the current pessimism and low interest rates and you have a recipe for higher prices. *However, we anticipate a market correction (in the 4% to 7% range) in the near-term due to the significant rally experienced over the past six months.* But remember, we are not "betting" on the market or any single asset class to achieve our client's goals.

I invite you to call to discuss matters related to managing and growing your wealth.



Mark Snelling serves the private clients of Sweetwater Financial Advisors, LLC, a wealth management and financial planning firm with locations serving Houston, Texas and San Antonio, Texas. Mark can be reached at 830.537.5194.



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