Citrin Cooperman Wealth Management, LP
Quarterly Report
October 2010

An update of current marketplace conditions

Market Commentary

The third quarter was up and down for the market, with big gains in July, a steep decline in August, followed by a large rally in September. We think the large movements are symptomatic of the high degree of uncertainty in the world, where every little data point is reacted to and overreacted to quickly. The primary basis for the latest market rally is the realization that the economy is not imminently headed back into recession and that the Fed will continue to provide as much liquidity as necessary through a process called quantitative easing, or QE2. What are the implications for equities, bonds, and the economy short-term and long-term? These are the questions we wrestle with every day.

Although it is quite impossible to analyze QE2 in a single paragraph, it is helpful to take a quick look at what it might mean for the markets. In simple terms, QE2 involves the Fed instantly increasing the size of its balance sheet and then using that size to purchase assets, originally mortgage securities and lately longer term Treasury bonds. The purpose of this is to reduce long-term interest rates and inject liquidity into the system to hopefully increase economic growth and prevent deflation. Some economists argue, however, that what the Fed is really doing is just creating dollars out of thin air and using them to purchase Treasury securities, which allows the Federal government to continue to finance the ever-widening budget deficit at record-low interest rates. Every time the market gets excited about the Fed gearing up this program, we see stocks, commodities and bonds rally, but the dollar decline.

Fixed Income

Bonds generally rally when investors get excited that the Fed will be buying bonds, yet the Fed's policies are aimed at increasing inflation, which is negative for long-term interest rates. As the dollar declines, foreign holders of our debt are losing money in their native currencies. A weak dollar will likely lead to inflationary pressures down the road, as the cost of our imports should rise. We have already seen large increases in many commodities this quarter which should eventually filter their way into finished goods prices. While this is occurring the U.S. continues to rack up impressive debt. At some point the government may find it difficult to fund these huge deficits at record low interest rates. It seems inconceivable that they can continue to run such large deficits, have the dollar decline, and have interest rates at such low levels.

Equities

Despite many of the aforementioned issues, there are quite a few reasons to be positive on equities. Yields on many stocks are more attractive than government bonds. Also, corporate bonds in general are far less attractive than they have been over the past few years given their impressive performance over that period. In addition, corporate America has done a good job cutting costs and improving balance sheets, while the government's balance sheet continues to deteriorate. Good companies that have pricing power should be able to offset inflationary cost pressures and therefore grow earnings. With times as uncertain as we have seen and expect to see, we rely even more on the principles of Modern Portfolio Theory. Having the right allocation and reasonable expectations will help make these uneasy and unsure times more bearable.

Market Metrics

Equity Class	Index	3Q 2010 Return	YTD Return as of 09/30/10
Large Cap	S&P 500	+11.29%	+3.89%
Mid Cap	Russell Mid Cap	+13.31%	+10.97%
Small Cap	Russell 2000	+11.29%	+9.12%
International	MSCI EAFE	+16.53%	+1.46%
Emerging Markets	MSCI Emerging Markets	+18.16%	+11.02%

Fixed Income Class	Index	3Q 2010 Return	YTD Return as of 09/30/10
U.S. Taxable	Barclays U.S. Aggregate	+2.49%	+7.95%
U.S. Non-Taxable	Barclays Municipal	+3.40%	+6.82%
Inflation Protected	Barclays TIPS	+2.47%	+6.99%
International	Barclays Global Treasury Ex U.S.	+10.33%	+7.43%
High Yield	Barclays High Yield	+6.72%	+11.52%

Asset Class	Index	3Q 2010 Return	YTD Return as of 09/30/10
REITs	Wilshire REIT	+13.35%	+19.21%
Commodities	S&P GSCI	+8.26%	-3.87%
Absolute Return	HFRX Absolute Return	+1.22%	-0.79%

Discussion on Portfolio Rebalancing

Rebalancing is the process where an investment portfolio is brought into line with the investor's Target Asset Allocation. Over time, a diversified portfolio will begin to drift away from its original target allocation. This phenomenon occurs because the varying investments in the portfolio perform differently over time. Investments that have done well naturally take up more of the portfolio allocation. During rebalancing over-weighted asset classes are sold and under-weighted asset classes are purchased to bring the overall portfolio back to its original long-term target allocation.

This process is important because a portfolio, if left untouched, can become either too risky or too conservative. For example, assume equities represent 60% of a portfolio. After a recent stock market increase, the equities now represent 75% of the portfolio. The investor should sell some of the stock investments or purchase investments from an under-weighted asset category in order to reestablish the original asset allocation.

Over the course of the next few months, CCWM will be reviewing client portfolios to determine if any rebalancing needs to be done. If there have been any major changes to your financial situation, please let us know at your earliest convenience.

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