



International Stocks: U.S. investors' return from international stocks is derived from two sources: currency return and stock return. Currency fluctuations this past year had a significant effect on U.S. investor return. The U.K. stock index rose 12.2%, but the dollar rose 3.4% against the U.K. currency, leaving U.S. investors with just an 8.8% total return. On the other hand, the Japanese stock index rose 0.7% and the Japanese yen rose sharply against the dollar, resulting in a 15.6% total return for U.S. investors. Investors in International stocks pushed Small stock prices more than Large stock prices as the appetite for risk rekindled. During 2010, the broad-based Developed Market Index rose 13.3%, including both sources of return. Emerging Stocks rose 28.1% despite concerns about an overheated Chinese economy. The stock of many of the smaller countries, including South Africa and Egypt, grew robustly.

U.S. Fixed Income: With lending standards finally loosening after the Great Recession and with mortgage delinquency rates heading down, the Fixed Income market produced positive returns. Municipal bonds produced a barely positive return, resulting from percep-

tions of shaky finances in municipalities across the land. In reality, Municipal bonds very rarely default because of multiple layers of safeguards. The Short-term Bond Index rose 4.2% with Intermediate-term and Inflation-protected bonds rising slightly more than that.

Real Estate (REITs): A drop in Real Estate prices was one of the main drivers of the Great Recession; however, the sector rebounded well in both 2009 and 2010. The Real Estate Index rose 28.1% for the year, though it has more ground to recover before reaching November 2007's level. With interest rates low and credit available, the asset class found investors willing to buy at higher prices.

Commodities: Growing conditions around the globe were less than ideal, and demand for grains from the Emerging countries has steadily increased. Cotton prices almost doubled due to severe storms that damaged crops. Precious metals gained ground from both increased demand and fears of inflation. As a result of currency pricing, the only commodity sector to fall was the Energy sector because crude oil trades in dollars, which rose. The broad-based Commodity Index rose 17.7%.



By now, you are most likely aware of the U.S. Government’s bond buyback program. The Government’s intention is to persuade bond market investors to keep interest rates low so that borrowers can access affordable loan rates. While it is ironic that interest rates rose after the program started, current borrowing rates compared

to historical standards are moderate. A buzz is going around, however, that since the economy is recovering and since interest rates are low, interest rates must move up. When interest rates go up, bond prices go down. People are wondering if and when to shed some of their bond holdings.

The challenge of predicting rising rates is two-fold. First, one has to predict the level of increase in rates. Currently, short-rates are essentially zero. Will the Federal Reserve raise rates to 1%, 2%, 3%, or more? The second challenge relates to timing. Will the Federal Reserve raise rates quickly or over multiple years? The history of interest rates can provide a background to understand how the bond market has reacted after recessions.

According to J.P Morgan Asset Management’s research, there were six periods of Gross Domestic Product (GDP) decline prior to 1970, but since bond rate data prior to 1970 is sparse, we will focus on the six negative GDP periods from 1973 onward, as shown in Figure 2.

- The years 1974 and 1975 represent one economic cycle. After the recession, Fed Funds did not reach a month-end low until March 1976 and eventually peaked in October 1979. Bonds had positive returns across all maturities: short, intermediate, and long.
- During the 1980 recession, the Feds raised rates drastically to stop the run-away inflation. Bond returns varied by maturity.
- During the 1982 recession, rates were historically high. The decline in bond yields started January 1982 and ended September 1986. This was a very good period for fixed income.
- During the 1991 recession, rates rose but slowly so that bond results were positive.

While we can’t say whether bonds will repeat past behavior, it may be premature to exit your bond positions solely because rates may rise in the near future. Voyager’s bond strategy is designed to perform solidly in all types of market environments. Consult your Voyager advisor to learn more about your fixed income strategy and/or to discuss your concerns.

Figure 2: Recessions, GDP, and Change of Interest Rates

| Date(s) of Negative Annual GDP | Change in GDP | Federal Funds Interest Rate Month-End Low During or Immediately After Recession | Federal Funds Interest Rate Month-end Peak Post-Recession | Length of Rise in Federal Funds Interest Rate (in Years) | Period Return of Short-Term Rates* | Period Return of Intermediate-Term Rates* | Period Return of Long-Term Rates* |
|--------------------------------|---------------|--|--|---|------------------------------------|---|-----------------------------------|
| 1974 - 1975 | - 0.64% | 4.84% (3/1976) | 15.61% (10/1979) | 3.58 | 4.81% | 7.56% | 7.71% |
| 1980 | - 0.27% | 8.98% (7/1980) | 18.45% (12/1980) | .42 | 1.20% | - 4.82% | - 9.66% |
| 1982 | - 1.94% | n/a | n/a | 4.75 (fall in rates) | 67.75% | 113.00% | 152.32% |
| 1991 | - 0.23% | 2.86% (12/1992) | 6.53% (6/2000) | 7.58 | 44.48% | 56.28% | 91.25% |
| 2009 | - 2.63% | 0.08% (12/2009) | ? | ? | ? | ? | ? |

* Short-Term Bonds: U.S. 1 Yr. Constant Maturity Bonds. Intermediate-Term Bonds: U.S. Intermediate Government Bonds. Long-Term Bonds: U.S. Long-Term Government Bonds.

Portfolio Equity Redesign

You may have noticed a recent change to your equity portfolio. Our portfolio administration department swapped the iShares S&P 500 Index ETF (Exchanged Traded Fund) positions and replaced them with the Vanguard 500 Index (Signal Class). The change provides a cost savings to you. Due to the growth in assets under Voyager's management, The Vanguard Group has given Voyager permission to use a less expensive share class of the S&P 500 Index fund called the Signal share class. The new expense ratio is 0.07%, a reduction from 0.09%.

A broader change in the equity portfolios will roll out to Voyager clients with equity portfolios over the course of the next several months. While our investment philosophy has remained unchanged for years, we regularly commit resources to improving our investment offerings. The

investment committee's recent research project resulted in new equity portfolio designs. The improvements include lower mutual expense ratios, broad diversification, and in certain accounts, lower trading fees. During our upcoming review meeting, we will discuss with you the details and explain how the changes will help you reach your personal goals more effectively.

VOYAGER NEWS:

2011 Calendar and Thanks

Voyager will be closed on the days listed below.

- February 21 - President's Day
- April 22 - Good Friday
- May 30 - Memorial Day
- July 4 - Independence Day
- September 5 - Labor Day
- November 24 & 25 - Thanksgiving & Day After
- December 26 - Day After Christmas

We thank you for your referrals. As Voyager continues to grow strategically, a portion of the additional revenue is being returned to clients in the form of additional and improved services. One significant improvement will arrive during the first quarter 2011 when Voyager installs an advanced computerized rebalancing system. While you may not notice the change, the result will be increased efficiency in reviewing and rebalancing your portfolio.

Star Busting

Late last year, the *Wall Street Journal* reported a new Morningstar study "How Expense Ratios and Star Ratings Predict Success." The study showed that in aggregate, low-cost funds have better returns than high-cost funds across all asset classes, during various periods from 2005 through March 2010. Fees "have proven to be the strongest predictor [of return] out there." says Russell Kinnel, director of fund research and author of the study. "The stars system, as a measure of past risk-adjusted performance, is going to be a little more limited [than previous thought]."



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