American Portfolios Financial Services, Inc.
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Holbrook, NY 11741

FREE

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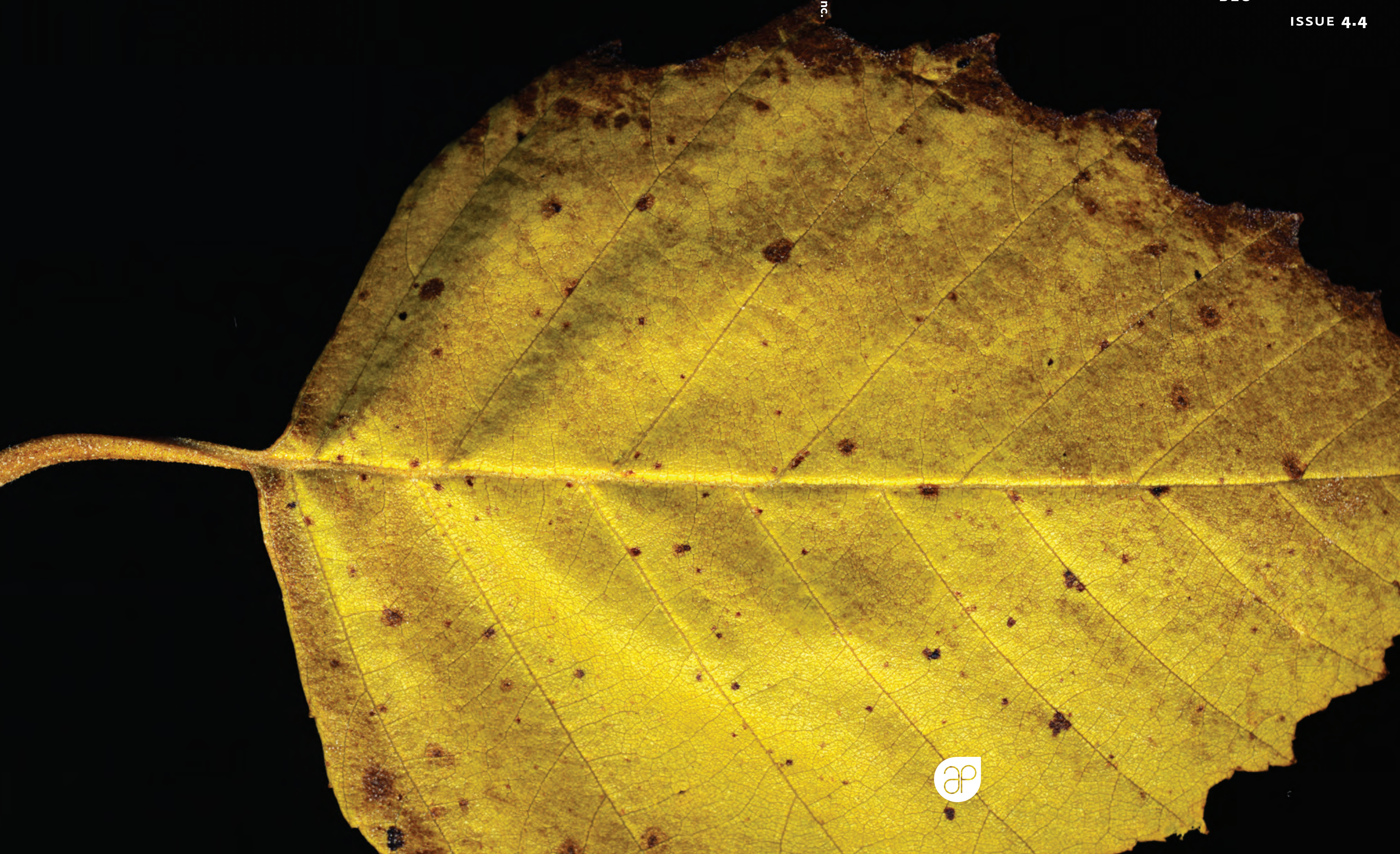

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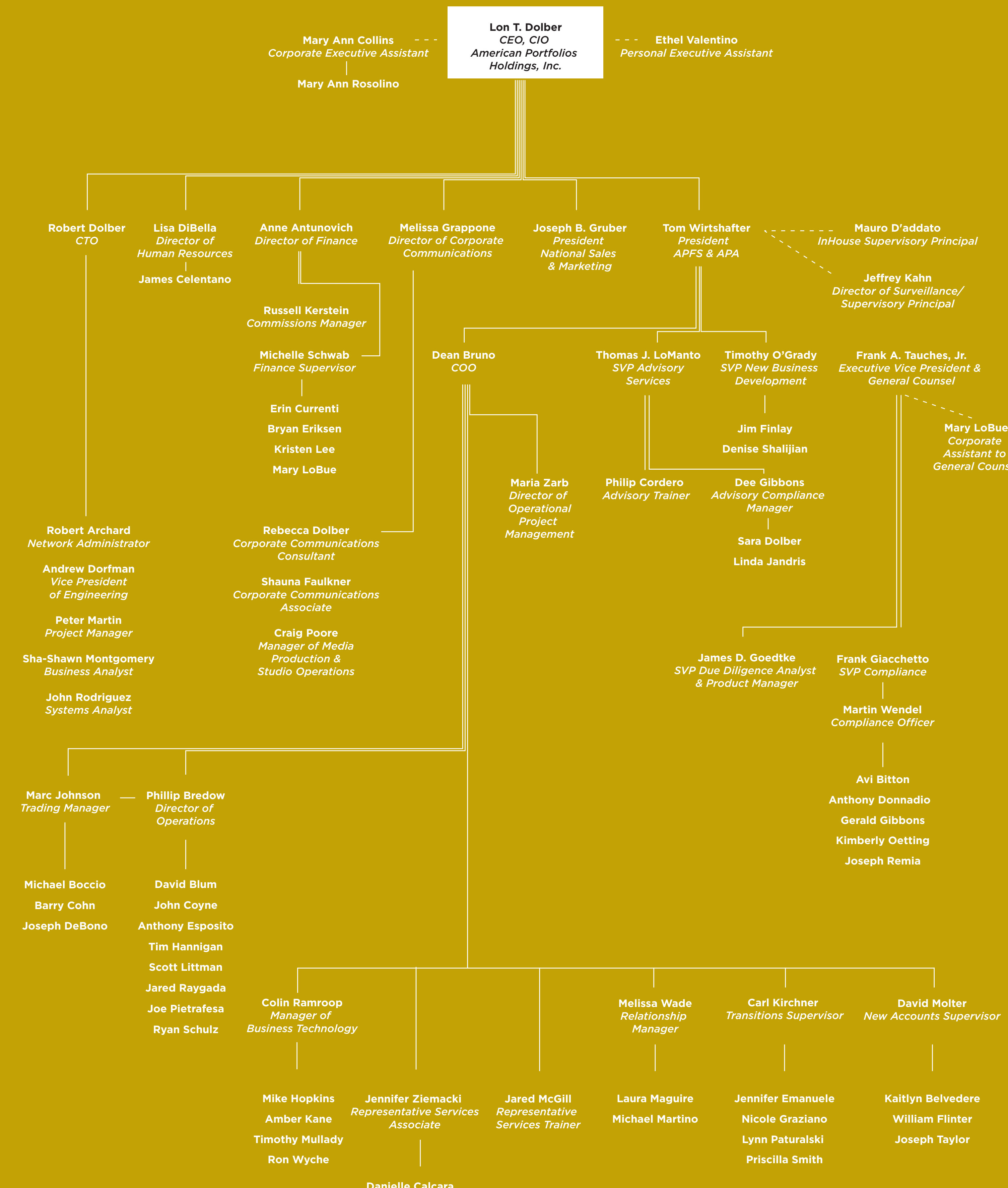

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From the Editor-in-Chief

IN AUGUST MY husband Gary and I reached our 25th milestone year in marriage. To celebrate, we treated ourselves to a week-long getaway, visiting two of the national parks out west—the Grand Tetons and Yellowstone. With our daughter away at college, for the first time in 19 years we had the unique and long overdue pleasure of going away someplace alone for an extended vacation. As we ventured out each day with the auto-pilot switch of our life on off—sharing wonderful moments, marveling at these magnificent, unspoiled surroundings—it allowed us the time to reconnect, recommit and reconcile our continued life partnership together.

With a new year just around the corner, re-establishing your goals, plans and the relationships in your business are important things to do. Our industry remains a difficult place to work in. The recently enacted Dodd-Frank legislation (not to mention other regulations still being fleshed out that have yet to have a real impact on us), tenuous market confidence and an economy not even close to being fully recovered, as you'll read in affiliated colleague Pat Powell's Economic and Market Commentary (pg. 17), are all factors that make conducting business and running a practice challenging, to say the least. Hence, you'll need an arsenal of investment product and advisory program choices, best practice solutions and strong working partnerships to rely upon. This edition of FREE is a perfect place to fill your quiver with insights and ideas to prepare you for 2011 and beyond. You'll hear from AP's senior management team, starting with COO Dean Bruno, who sheds light on the growth and operational developments taking place at the broker/dealer (pg. 8). In the President's Perspective, Tom Wirtshafter, as always, paints a well-crafted argument that justifies charging for a trade ticket transaction by comparing it to the exponential cost—relative to its intrinsic value—of an 8-ounce bottle of water (pg. 9). Chief Legal Counsel Frank Tauches makes a bold and blatantly direct plea urging you to take ownership and influence the planned legislation that will impact the way we all do business (pg. 12). Senior Vice President of Advisory Services Tom LoManto writes the INSPIRE piece for this issue of FREE and wants you to know that, with his help and the help of his advisory services team, you must and can "embrace the horror" of change (pg. 13). FREE recently had the opportunity to talk with a new member of the senior management team, Joby Gruber, who serves as president of national sales and marketing; we share that conversation with you in this issue's Up Close to provide a glimpse into the man, as well as the energy and wisdom he brings to the firm—and ultimately to you (pg. 18). A final note from senior management comes from CEO Lon T. Dolber in his State of the Firm address, in which he asks you to look back to the path you've paved in order for you to be able to look ahead to a new road in financial services (pg. 38).

It does not end there. Your fellow AP colleagues in the field provided a wealth of insight in this issue of FREE. In addition to Pat Powell's Market and Economic Commentary, Bill Donahue and Paul Donahue share their challenge of offering advice to baby boomer clients in their practice who are asset rich, yet cash poor; they brought the expertise of a friend and colleague, an attorney, to write an exclusive article for Boomer Beat about the estate planning considerations for hard assets (pg. 14). Colleague Jane Desmond in View from the Field offers a tax savings rule tidbit to have in your back pocket when talking with your unemployed executive clients who may be holding an abundance of company stock (pg. 16). We also thank colleague Ron Chakler for allowing FREE access to one of his top clients—Dave Denaci, a principal and founder of a direct-mail marketing company called R4PM Direct—to do a Client Profile about his move from "corporate executive" to "business owner" (pg. 28).

It never ceases to amaze me what incredible and interesting colleagues we have affiliated with us. They are individuals guided by their conscience, their personal experiences and their independent spirit; these are the people in our industry who are providing the best possible service to their clients and the public at large. In this issue of FREE we feature a colleague who's been with American Portfolios for close to eight years—Jim Ugone of Topsfield, Mass. Before starting a career in financial services more than 20 years ago, he was a horticulture teacher. You'll see just how Ugone reconnected, recommitted and reconciled with his profession, his practice and his personal life—many times over (pg. 20). In the Q&A, colleague Cathleen Burns of St. Augustine, Fla., not unlike Ugone, majored in botany in college, and ran a plant maintenance and leasing business before coming into the financial services profession in the early 90s. Through life's circumstances, her intended path of becoming a physician changed, leading her into what she never imagined could be a personally rewarding profession as a financial advisor (pg. 32).

But wait, there's more. Our business partners provide tremendous support to the firm and our colleagues, both in products, services and in best practice solutions. Nationwide breaks out Retire-Sense®, an investment and draw-down strategy for generating inflation-adjusted income throughout retirement, in Tools of the Trade (pg. 34). AXA offers a number of strategies for your reluctantly retired clients (pg. 35) and Curian helps you identify and tap into an underserved demographic market—the middle-class millionaire (pg. 36).

In closing, never was there a more defining moment for 18 AP staff members, partners and friends of the firm in reconnecting with the community—but mostly themselves—than the experience they shared at this past September's Adventure Team Challenge through World Team Sports (pg. 10).

Enjoy the remainder of the holiday season!

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CORRECTION
The photos for the Q&A with colleague Berney Harris in FREE 4.3 were taken by Andrea L. Parker.

COMMUNITY

CALENDAR

FP *Focus Partner Corporate Events at American Portfolios, Holbrook, N.Y. (Please call Corporate Receptionist Mary Ann Rosolino at 800.889.3914, ext. 154 to confirm your attendance)*

Dec. 16		**American Portfolios Holiday Party** *Home Office* *Holbrook, N.Y.*
Dec. 20	FP	**Lunch Meeting** *Sponsored by John Hancock* *Joe Donadio, Noon*
Dec. 22	FP	**Lunch Meeting** *Sponsored by Penn Mutual* *Ken Junge, Noon*
Dec. 24		**Market Closed for Christmas**
Jan. 31 – Feb. 2, 2011		**OneVoice 2011: FSI Broker-Dealer Conference** *Sheraton Phoenix Downtown* *Phoenix, Ariz.* *www.financialservices.org/onevoice2011.aspx*
Feb. 2 – 5, 2011		**TD Ameritrade Institutional 2011 National Conference** *Manchester Grant Hyatt* *San Diego, Calif.* *www.tdameritradeconferences.com/national*
Feb. 6 – 8, 2011		**4th Annual Inside ETFs Conference** *Westin Diplomat Resort & Spa* *Hollywood, Fla.* *www.indexuniverse.com/insideetfsconference*
March 3 – 5, 2011		**FPA Business Solutions 2011** *Hyatt Regency Cambridge* *Cambridge, Mass.* *www.fpanet.org/professionals/EventsConferences/Conferences/BusinessSolutions*
March 6 – 8, 2011		**ASPPA 401(k) Summit** *Caesars Palace* *Las Vegas, Nev.* *www.asppa.org/main-menu/confswebcasts/conferences/2011/the-asppa-401k-summit/overview*

WANT TO SHARE YOUR THOUGHTS?

We'd like your feedback on the articles you read here. What did you like? What can we do better? What would you like to see us cover? Send your thoughts and ideas to **Melissa Grappone** at **mgrappone@americanportfolios.com.**

CONTRIBUTORS

Jane Desmond began her career in financial services in 1982 as a registered representative for a mutual fund company offering packaged products. After achieving enormous success as a top producer and regional manager for the firm, in 1990 she furthered her knowledge and focus in individual equities and municipal bonds by joining a regional brokerage firm on Long Island and obtaining her series 7 license. In 1994, she was approached by Lon Dolber, who encouraged her to go into private practice by joining his group and affiliating with independent broker/dealer MFI Investments, followed by Nathan & Lewis Securities in 1996 and then to American Portfolios Financial Services, Inc. in 2004. She now balances her time between doing her own production and supervising advisors as an OSJ. Jane lives and works in New York City and relaxes on the weekends at her home in East Hampton, N.Y.

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William P. Donahue and **Paul Donahue** have run a successful financial services practice in Central and Eastern Suffolk County New York for the last 15 years. When not working, both are busy at home enjoying their families.

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Patricia Powell is a certified financial planner in Martinsville, N.J., and has been an affiliated colleague of American Portfolios since 2005. Patricia, who has more than 25 years in the financial services industry, runs her financial planning practice, The Powell Financial Group. A prior contributor to FREE, Pat has also contributed economic and market commentary to such news powerhouses as CNN, The Wall Street Journal and, often, Fox News, where she is a regular voice.

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Laura Dunathan has been practicing law for more then 13 years, exclusively in the areas of primary concern to families—wills, trusts, estate, gift and generation skipping taxes, business succession planning, special needs planning and elder law. In addition, Mrs. Dunathan has acted as legal counsel to many non-profit organizations, both in formal and voluntary capacities. Her personal service and attention to individual circumstances are hallmarks of her practice.

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ON-DEMAND VIDEOS LINE UP

Studio 454, the media production arm of American Portfolios (APFS), is committed to creating interesting and informative video programs exclusively for the firm's affiliated colleagues. To view a video, click on the Studio 454 button at the top of the APFS Broker Web site and enter the title of the video in the search field. To scan the program lineup, click on "Top Videos" or "Browse."

STARS – Next Generation Studio 454
With the release of the second version of STARS in early July, a trilogy of training tutorials conducted by New Accounts Supervisor David Molter were produced in the studio to acclimate all affiliated colleagues—representatives, supervisors and assistants—to procedural changes as a result of the programming revisions made. Enter keyword "STARS" in Studio 454's search field to pull up the videos.

STARS Version 2: Changes and Updates to the NAF
This short video tutorial discusses the changes and updates made to the NAF with regard to the registration, employment status pick list, client financials, investor questions and certification.

STARS Version 2: Client Notification and Mailings
New Accounts Supervisor David Molter discusses the changes and updates to the new process built into STARS surrounding the client welcome and client three-year verification letters.

STARS Version 2: Clearing Firm Workflow and Expanded Entitlements
This three-minute video demonstrates how to open a Pershing account in STARS and explains the additional entitlement provisions extended to assistants.

Indianapolis Regional Meeting
Studio 454 went mobile this past October to record various presentations and happenings during the Indianapolis regional meeting in Indiana. The Midwest conference provided a number of interesting and educational seminars, including:

» An in-depth and informative keynote address delivered by OppenheimerFunds' well-known chief economist, Brian Levitt, which provided a powerful overview of the current economic landscape as it relates to financial advisors.

» Allianz representative Mark Williams, who presented several proven techniques for enhancing your practice and helping to build your clients' retirement assets.

» A panel group comprised of three of our mutual fund focus partners—American Funds, OppenheimerFunds and Franklin Templeton—which provided an open discussion on sales ideas, the future market place and available services from each.

» A lay of the land overview of Pershing's fixed income platform presented by Mike Higgins and Robert Diemar on their fixed income product offerings, the suite of tools and resources accessible through NetX360 and the team of experts available to you.

Studio 454 appreciates your comments and reactions. **We welcome your suggestions for future shows. You can e-mail the studio directly at Studio454@americanportfolios.com.**

NEW EMPLOYEES

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Joined APFS in July 2010

As director of surveillance and supervising principal, Jeffrey reports directly to APFS President Tom Wirtshafter. In this role, Jeffrey works with AP supervisors to ensure their understanding of the firm's policies, direction and strategies, as well as help them to supervise their representatives.

Using the various reporting systems at AP, Jeff reviews account transactions, commissions and activities to determine that accounts are being maintained within the guidelines established by the firm. He also trains supervisors on various APFS systems, such as STARS and Actimize.

As an in-house supervising principal, Jeff works with specific supervisors and representatives to approve account openings and updates, and reviews transactions.

Prior to joining American Portfolios in July 2010, Jeff was employed by First Allied Securities as the vice president of supervision for the East Coast region. He worked in this role and several others, including regional administrative supervisor and branch manager, and associate vice president of sales and supervision. Jeff also compiled industry expertise during his time with Shearson Lehman Brothers and BG Capital.

Jeff holds his series 3, 4, 7, 24, 51, 63 and 65 securities licenses. He is also licensed for life and health insurance in New York and acts in the capacity of a FINRA arbitrator.

He is a resident of Great Neck, N.Y., and enjoys spending time with his family and playing golf.

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As director of operational project management, Maria reports directly to COO Dean Bruno. In this role, she supports the COO in auditing APFS operational teams, as well as creating a concierge service for top representatives and managers. Maria also acts as a Pershing liaison and assists with all aspects of the day-to-day operations of the broker/dealer. In addition, Maria regularly interacts with the senior management team on various projects and initiatives, and acts as the ombudsman to all brokers with questions and concerns.

Maria has more than 20 years of management and executive experience in the independent broker/dealer environment. Prior to joining American Portfolios in 2010, she served as assistant vice president of advisor support for AIG Advisor Group, where she managed a team of nine managers and 45 associates. Before that, she served as the vice president of customer service and processing teams for AIG Royal Alliance Associates. In this role, she managed a team of five managers and 80 associates.

Maria earned her bachelor's of science degree in business administration and management from the New York Institute of Technology. In addition to her career experience, she holds her series 7 securities license.

When not at work, she enjoys reading and spending time with her two sons, ages 10 and 13, watching them participate in soccer, karate and track.

PROMOTIONS

We are pleased to announce that the third quarter of 2010 brought promotions for four different APFS employees across various departments in the firm.

The first comes for Kimberly Oetting, who moved from the new accounts department to the compliance department. Kim joined the firm in 2008 as a new accounts associate; during her time in that position, she showed an eagerness to learn and grow in both her department and the company. When the opportunity to work in a new facet of the broker/dealer presented itself, Kim welcomed the change and the challenge.

In her new role of compliance securities licensing associate, Kim will have a multitude of responsibilities, including inputting and keeping track of securities licensing and exams, and inputting address changes in the CRD. Through written communication, she will also be following up with reps on their regulatory continuing education requirements, as well as processing and doing the monthly reporting on the termination of registered and non-registered persons, and the opening and closing of branch offices. In addition, Kim will be responsible for assisting individuals with completing and processing the U4 application; delivering electronic U4's to rep candidates; processing and following up on the submission of fingerprint cards and other various documents submitted to FINRA; and reviewing, processing and following up on FINRA license/exam exceptions.

Likewise, Danielle Calcara has also changed departments. Having joined the firm in 2009 as an operations support associate, she worked under the direct supervision of Corporate Executive Assistant Mary Ann Collins and acted as the backup associate for the APFS mailroom and corporate reception area. In addition to these duties, Danielle performed very well in various operational projects—new account form entry, reviewing and scanning, and opening Pershing brokerage accounts—and assisted Director of Operations Phil Bredow and COO Dean Bruno with various projects on which APFS and Pershing worked jointly. The exceptional work Danielle put forth has landed her the promotion to representative services associate.

Danielle has been diligent in learning all aspects of the affiliation process and joins the representative services department with eagerness and enthusiasm. She will be a welcomed—and much needed—addition.

1

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4

1. Kim Oetting
2. Danielle Calcara
3. Jennifer Ziemacki
4. Carl Kirchner

Also in the representative services department, a promotion has been given to Jennifer Ziemacki, who joined the firm in 2008 as a relationship manager associate, but most recently has been working as a representative services associate. In her new role as representative services leader, Jen will continue to report directly to COO Dean Bruno, while also supervising Danielle Calcara. Jen will be responsible for all activities within the representative services area. She will coordinate and oversee the prospective registered rep affiliation process, reaching out to all APFS departments with which she has developed strong working relationships.

With her various positions, Jen has proven to be an invaluable employee of American Portfolios, assuming a great deal of responsibility and working under constant pressure to keep up with the demands of the rapid growth experienced by the broker/dealer in the last year.

And finally, we are pleased to announce that Carl Kirchner, who has been a valuable staff member of American Portfolios and the transitions department since 2005, has been promoted to transitions supervisor/supervising principal.

For a number of years, Carl and his department have been instrumental in implementing the transfer of more than 500 securities licenses for new colleagues and thousands of client accounts to APFS.

Over the last few months, however, Carl has been mentored by President Tom Wirtshafter, specifically with regard to the supervision of registered representatives. He has excelled during this mentoring process, quickly embracing the knowledge communicated to him. To that end, Carl will be assuming additional responsibilities as a supervising principal and will oversee 10 registered representatives. Carl will continue to be responsible for all activities within the transitions department, taking on a more proactive, interactive role with colleagues who are joining the company. In addition, he will conduct post-transitions date follow-up calls with registered representatives who have recently on-boarded—the purpose of which is to find out how the transitions process is going; what questions, concerns, comments or problems the reps may have; and resolving any issues presented to him.

Congratulations to all four of these exceptional staff members who help to maintain APFS' position as one of the industry's premiere independent broker/dealers.

EMPLOYEE OF THE QUARTER

SHA-SHAWN MONTGOMERY

FOR AO Business Analyst Sha-Shawn Montgomery, learning has always been key. Armed with a bachelor's degree in education, she was determined to impart her love of learning to children, those she considers to be the leaders of tomorrow. However, a side-trip into the world of financial services taught Sha-Shawn, more than any college degree ever could, that the opportunity to continue learning, coupled with true professional enjoyment, brings the most fulfilling sense of reward in a career.

"It's funny, when I was earning my degree from Dowling, I thought that teaching was the only thing I could do. But after working with different financial services companies and learning all that I have at American Portfolios, I realize there are so many paths that people might not think about. I never thought I would be able to learn such technology-driven material, or that I would love it as much as I do. I can truly say that I have found a craft that gives me immense enjoyment. Working in American Outsources (AO), I am able to take an idea and express a degree of creativity that allows me to bring a better product to the firm."

One of those systems Sha-Shawn helped to make her own was the newest version of STARS, which was released in July. According to Chief Technology Officer Rob Dolber, Sha-Shawn has been instrumental in the implementation and launch of the new version.

"The astonishing seamlessness of the STARS migration and solid footing established for future evolution of the firm's one-of-a-kind supervision platform can be attributed largely to Sha-Shawn," Dolber said. "She has a passion for knowledge, effectively learning all aspects of the STARS platform by examining hundreds of use-cases and business rules to become a STARS subject expert."

For Sha-Shawn, though, the launch of STARS was only one rung on the ladder to success. She hopes to accomplish much more in her career, both within American Portfolios—to achieve the status of specialist for STARS and other AO-related systems, in the hopes of becoming a systems trainer—and in the industry, by obtaining her series 7 securities license, a challenge she plans to conquer. Also, in her constant quest to learn as much as she can, Sha-Shawn has entered graduate school to earn her master's degree in business administration, with a concentration in management and leadership.

American Portfolios is lucky to have such a dedicated person on staff; to reward her for her diligence and her enthusiastic personality, Sha-Shawn has been named the Employee of the Quarter for the third quarter of 2010. Congratulations, Sha-Shawn, and good luck in all your personal and

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SPOT AWARDS

Each quarter **Spot Awards** are given to those employees who have exhibited a specific noteworthy act or accomplishment at the firm. This award acknowledges employees, before their supervisors and peers, for their outstanding work. At the same time, it reinforces the behaviors and values that are important at American Portfolios. The following APFS employees, at the request of their supervisors, received **Spot Awards** in the third quarter of 2010...

MELISSA WADE *Relationship Manager*

"Melissa has performed exceptionally well in planning and implementing our two recent regional meetings in Palm Beach Gardens, Fla., and Hauppauge, N.Y. For many years, I would be the primary stakeholder in the organization, planning and implementing our meetings. This employee, with some guidance and words of wisdom, has taken the next step in her development of managerial skills. She worked hand-in-hand with a team of employees, as well as more than 350 registered representatives and 100 vendor colleagues. Without her skills—from a management perspective, presentation perspective, and communication standpoint with our vendor relationships and registered representatives—the regional meetings would not have gone as smoothly or successfully, and would not have flowed as well as they did. Great job, Melissa."

— DEAN BRUNO *COO*

LAURA MAGUIRE *Relationship Manager Associate*

"Like Melissa, Laura was an essential part of planning and executing the APFS regional meeting in Florida and on Long Island. Laura worked to prepare meetings and organize reps and vendors. She executed all tasks in a professional and organized manner, chatting with other colleagues and representatives, escorting reps into meetings and making sure all agendas, name tags and gifts were organized and put away each night. Most importantly, she took time out of her own days to attend evening events and then arrive early to set up for morning meetings. Laura exemplifies the kind of culture we strive for at American Portfolios and we should all be proud of her hard work and dedication."

— DEAN BRUNO *COO*

COO'S CORNER

The Wheels of Progress

by Dean Bruno

With the close of the 2010 third quarter, APFS continues to grow at a prosperous pace. Although the growth spurt of new affiliated colleagues experienced by the broker/dealer earlier this year has subsided, we are still on pace to bring on board more than 150 colleagues by the end of 2010. As a result of this, APFS has also added and promoted many employees to assist our colleagues in the field.

APFS STAFF

80 EMPLOYEES
END OF THIRD QUARTER 2010

60 EMPLOYEES
BEGINNING OF 2009

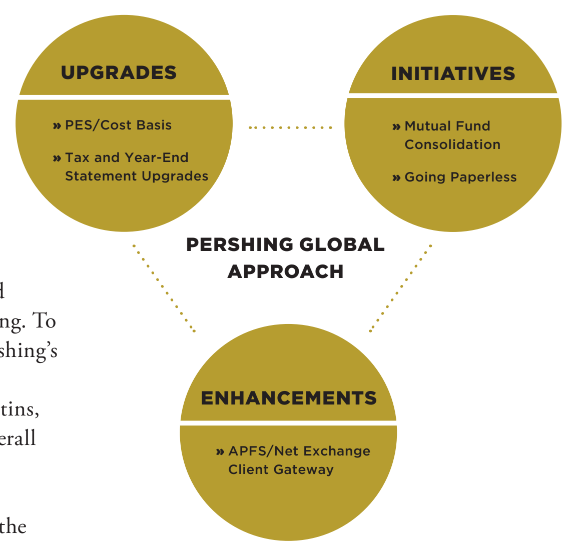
Currently, the broker/dealer has approximately 80 employees, up from 60 at the beginning of 2009. This support team services 750 registered colleagues.

The APFS operations and trading teams, supervised by Director of Operations Phillip Bredow and Trading Manager Marc Johnson, now have 11 employees assisting colleagues with a combined 30,000-plus established Pershing clearing firm accounts.

Our most recent addition to the operations department is Maria Zarb, director of operational project management. In this role, Maria supports the broker/dealer in auditing the APFS operational teams. She will be creating a concierge service for top representatives and managers, as well as acting as a Pershing liaison and assisting with all aspects of the day-to-day operations of the broker/dealer.

In addition, Maria interacts regularly with the senior management team on various projects and initiatives, and acts as the intermediary to all brokers with questions and concerns.

PERSHING INITIATIVES



APFS is committed to developing and enhancing its relationship with Pershing. To that end, calls are conducted with Pershing's relationship management team twice each week to discuss operational bulletins, enhancements and upgrades to the overall Pershing experience.

These initiatives, which we refer to as the Pershing Global Approach, are already beginning to roll out PES/Cost basis and tax and year-end statements for all accounts; optional mutual fund consolidation; the "Going Green" campaign and client access enhancements, including client access and download capability—at no charge—of Quicken and Microsoft Money, core components of the APFS Client Gateway. Several initiatives, in fact, are all coming down the pipeline.

STARS/TECHNOLOGY INITIATIVES

With the release of the new version of STARS this past July, a more streamlined and automated client notification process—per the SEC Books and Records Rules—has been implemented, along with the rollout of some viewing enhancements to the system.

Since this past September, American Portfolios has been sending clients with new account forms certified in STARS a welcome letter introducing the broker/dealer. This letter outlines how their client information is illustrated in the STARS system. These monthly mailings include our New Account Form Disclosure Statement.

In addition, it is also required that the broker/dealer conduct a mailing of the three-year SEC Books and Records Rules notification every 36 months; this mailing will include the APFS Privacy Policy and will be conducted monthly. All colleagues will be able to view which clients are queued for the notification. Colleagues will also be able to see which clients have been identified by the U.S. Postal Service as having bad mailing addresses. Access to these items can be viewed in a registered representative's Principal or Rep view of STARS.

In an effort to keep up with and discuss our various technology-related initiatives, CEO Lon T. Dolber, Manager of Business Technology Colin Ramroop, Senior Project Manager Peter Martin and I meet every Monday morning to discuss STARS enhancements and upgrades, Albridge, our broker/dealer management system, imaging projects and much more. There are many pending projects that we intend on keeping all colleagues abreast of.

As you can see, AP's back office has many items on its plate. This is an exciting time and I look forward to sharing all that has yet to come in the final quarter of 2010 and throughout 2011.

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PRESIDENT'S PERSPECTIVE

Oil & Water

by Tom M. Wirtshafter

Ask anyone what costs more, water or gasoline? Most everyone will remember the last time they filled up their tank at the station and their answer will be unanimous—gas. When this answer is presented, however, you can take out your bottle of water, which probably cost you somewhere between \$1 and \$2, and say to them, "Not even close. At these prices, water costs between \$10 and \$30 per gallon. Aren't you glad you don't have to water your grass with bottled water?"

According to the U.S. Geological Survey, Americans use more than 410 million gallons of water daily. I suppose we would use a lot less if we were paying \$20 per gallon. The truth is, the average household is paying about one-fifth of a penny for a gallon of water. So, we are looking at markups of 240 to 10,000 times more for bottled water versus tap water. That seems like a very heavy price to pay for the convenience of bottled water.

But the question is, how do bottled water companies take something that is worth one-fifth of a penny and make it worth \$20? Aquafina (Pepsi) and Dasani (Coke) are both made from purified water sourced from public reservoirs (i.e. tap water), as opposed to Evian (Danone) and Poland Spring (Nestle), which are shipped from "spring waters" from specific locations. Then there's Fiji Water, which is really from an aquifer in Fiji, and Mahalo Hawaiian Deep Sea Water, which is drawn 3,000 feet below the surface of the Pacific Ocean. It is desalinated and costs anywhere from \$6 to \$32 per bottle.

These "designer" bottled waters can be very expensive. The costs of pumping it out of the ground, the public reservoirs or the oceans, along with the cost of filtering or purification, can really run up the price. Next add in the cost for marketing and advertising. It is very expensive to promote a brand, especially for a product that is expensive compared to its intrinsic cost—it is no wonder many bottled water executives got their start selling perfumes.

THE TRUTH IS, the average household is paying about one-fifth of a penny for a gallon of water. So, we are looking at markups of 240 to 10,000 times more for bottled water versus tap water.

Then there is the packaging. Bottled water companies use more than 3 million tons of plastic per year. Tack on the cardboard and the extra plastic to wrap the cap, insuring that the water is not tampered with. And let's not forget that at every step along the line, you have workers. It is not so easy or inexpensive to create a pipeline of truckers, plant workers, chemists, engineers, accountants, marketers and executives. It takes many people to get a bottle of water into our hands.

However, I don't think when we buy a bottle of water that we're really thinking about how it was created or how much it cost to get the bottle to us. Perhaps we think about the safety of bottled water, the clean taste of the water and the fact that it always tastes the same. Mostly, we think about the convenience.

You are probably wondering why am I so interested in the bottled water business. Well, I find it fascinating because it is not unlike what we do. The discount firms have said to the investing public that their trades should only cost \$10 and if they are paying more, they're getting ripped off by a broker. But, if a bottle of water can have a markup of 240 to 10,000 percent, can't we charge a fair—but appropriate—commission for the work we do and the risk we take? After all, we do take a risk when we accept a client order; we can miss a market, make a typographical error and we take responsibility for the suitability of the trade.

But more than the risk, there is a cost of doing business: opening an office, staffing that office, and being ready to take and execute trades. What is the cost of providing consistent customer service, of watching the markets, placing the right trades, gauging the executions and making sure funds are available for the purchase, or out to the client on a sell?

So the next time someone asks you to do a trade for \$10, give them a bottle of water and ask them how much the convenience, safety and their piece of mind is worth, knowing that they are consistently given a quality product.

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SOCIAL RESPONSIBILITY

ADVENTURE TEAM CHALLENGE

IN THE SPRING there was the Face of America bike ride—a 110-mile course from Washington, D.C. to Gettysburg, Pa., to honor our military. Then in the fall it was the newly-launched World T.E.A.M. Sports Adventure Team Challenge. Eighteen staff members, partners and friends of the firm took time out of their busy lives to be coaches and volunteers for this three-day event. What would seem like a sacrifice at first was in fact a gift of enrichment and gratification in the end.




It began as a conversation during the course of business. APFS CEO Lon T. Dolber learned about the Center for Discovery—a residential community for people with varying disabilities—through a business partner of the firm, whose son is a resident. There the idea was sparked to create a special outdoor event that would join residents, teachers and aids from the center with participants of World T.E.A.M. Sports.

Nine month later, after much preparation and planning—and amidst a perfect autumn backdrop in the Catskill Mountains of Upstate New York at Frost Valley—the season of bounty gathered teams of able-bodied and special athletes in a series of outdoor challenges.

DAY 1 The first day of the challenge was launched with a row boating event across Lake Cole; special seats were retrofitted into the boats for those medically-fragile athletes confined to wheelchairs. An orienteering course followed; under a warm afternoon sun, five teams of red, blue, yellow, green and orange walked the grounds of the park with map, compass and clues in hand, searching for six markers that would lead them to their final destination—the flying squirrel. The event concluded with one member from each team volunteering to be hoisted 30 feet into the air with a harness, rope and pulley.

DAY 2 The second day consisted of selected members from three teams awaking to a brisk morning at dawn for a four-hour hike up the region's tallest peak—Slide Mountain. Three selected special athletes, along with their team members, were brimming with pride as they made their way successfully to the summit. Following the descent, team members from World T.E.A.M. Sports were given the added challenge of a five-mile bike ride from the trailhead of Slide Mountain to the finish line back at Frost Valley. Here they would join up with their remaining teammates in the final event—the biker's challenge.

The day ended with an awards ceremony for all participants and a special honor given to CEO Lon T. Dolber from the Center for Discovery in gratitude for making the Adventure Team Challenge a reality. There was not a dry eye in the audience.

"Adventure Team Challenge was beyond rewarding. I had a blast. The staff at the Center for Discovery were amazing. The special athletes blew me away. They did things they've never done before and exceeded everybody's expectations, including their own."

—Gerry Gibbons
Compliance Associate

"It was an extraordinary experience working with both the special athletes and my co-workers. It was a great team-building lesson. I honestly did not think I would make it to the top of Slide Mountain, but we did it together. Spencer, one of the special athletes, was a great motivator."

—Kimberly Oetting
Compliance Securities Licensing Associate

"The TEAM Adventure challenge was truly an inspirational weekend. The athletes were so amazing and I am so proud of everything they accomplished. "

—Kaitlyn Belvedere
New Accounts Associate

"The whole experience was amazing. I came away with the sense that there are no limitations as to what a person can do no matter what their physical or mental handicaps might be."

—Sandra White
Assistant to Managing Director Barry Cohn

"Adventure Team Challenge was one of the most enriching experiences I've had the honor of being a part of. The joy of sharing in each athlete's achievements left a memorable mark on my heart."

—Mary Ann Rosolino
Corporate Receptionist

"It was both inspiring and moving to see how the group of challenged participants were able to keep up with the activities. I keep with me the memories of the smiles, the excitement and the looks of the loving parents as they watched on."

—Lisa DiBella
Director of Human Resources

"Sometimes you have to go out of your comfort zone. We all did. From the coaches who had never worked with challenged athletes to the athletes themselves, many of whom had never been in a row boat or hiked a mountain. Belonzo, our blind teammate, trusted us to walk with him through the woods; the athletes who were wheelchair bound guided us through the orienteering course; and the lovely and brave Linda, our flying squirrel, was determined to break her record for bicycling—and did it."

—Tom M. Wirtshafter
President

"Working with the individuals from the Center for Discovery was a truly inspiring and heart-warming experience."

—Danielle Calcara
Representative Services Associate

COUNSELOR'S DESK

(TACTICS 101)

Our Legislative Action Plan

by Frank A. Tauches, Jr.

With the passage of Dodd-Frank and the upcoming jockeying for position between the SEC, FINRA, state regulators and (believe it or not) the Department of Labor, looming legislation and regulations require our input and action, and this is a call to mobilize each financial advisor in our system to make every effort to guide our legislators and regulators in the right direction.

While we may not be able to impact our economy or stabilize the market, we cannot sit idly by and allow the profession you have dedicated your life to and the business you have worked so hard to build to be decimated piece by piece as the unintended consequence of ill-prepared legislation and implementing regulations.

It's critically important that our firm and its financial advisors work together and ramp up our efforts to strategically influence the direction our legislators are headed towards; this can be accomplished in various ways. The first is by promoting individual advisor membership in Financial Services Institute (FSI). For 2011, advisor membership in FSI has been included in your annual fees on an "opt-out" basis and the cost of $99 has been included and spread out over the year with your other fees. If you have opted-out, I hope that this article and the other information you've seen on our Web site will influence you to reconsider and join. It is important for your legislative leaders to know that you are part of a strong professional association that ultimately serves the best interests of its constituents. The second is by establishing the "Legislative Action" page on our APFS Web site, which informs our advisors of pending issues and the action that needs to be taken. Keeping you abreast of the immediate issues warranting action is paramount to our success in this effort. To this end we are establishing one location—which should be completed by the release date of this issue of FREE—from which you can access all information.

Another way to be proactive is by publishing and distributing white papers that frame the issues and demonstrate the unintended consequences of noxious legislation. For this we rely on the professionals at FSI and other organizations, such as Investment Adviser Association (IAA). Each has dedicated staff that researches proposed legislation and regulations in order to determine the overall effect on our business and the changes it would force us to implement. The net result is a "white paper," or informational piece that you can use to familiarize yourself with the issues and share with your legislative leaders and their staff.

Initiating correspondence to federal and state representatives on pending legislation, and to regulators on implementing rules and regulations, is another important aspect of the task-at-hand. Nothing is more important to elected officials than issues affecting their constituents. The most critical step in this entire process is you writing or e-mailing your legislators and advising them of the impact the proposed legislation would have on their clients, their business and, ultimately, their families. You are the individuals who voted them into office, and you are the individuals who can vote them out of office. While they may not be up-to-date on each piece of proposed legislation, someone on their staff will be or is responsible for researching and advising them. The most important factor in that advice will be the effect on constituents. This is why your correspondence is so important.

Organizing visits by constituent advisors to the local offices of congressional and state representatives to discuss the impact of pending legislation and regulations on their business could also prove beneficial. While legislators receive hundreds of visits from lobbyists and professional organizations with a clear agenda, no visit is more important than one from a constituent. The fact that you have taken your time to make a personal visit to either their Washington, D.C. office or home district office emphasizes the critical nature of the pending legislation and the consequences to the people they serve. It's important to get their commitment to support the position that best serves your interests. While this effort may take time out of your busy schedule, it's time best spent.

The final way in which to be proactive is by following up with each representative to thank them for their support, or to reiterate their accountability for their vote against legislation that is not in the best interest of your business and, ultimately, your clients. They must know that you are monitoring their efforts and that they will be held responsible for the results. After all, the most powerful weapon in this process still lies in your hands—your vote in the next election.

While what I've just outlined may seem like an uphill battle, it's a battle worth fighting. Professional organizations like FSI and IAA do an excellent job of framing the issues on Capitol Hill, but this battle is won in the home districts when professionals like you take a stand on what is important. As the year unfolds and legislative agendas and proposals are revealed, I look forward to working with each of you in this effort.

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INSPIRE

Navigating You Through the Sea of Regulatory Changes

by Thomas J. LoManto

When APA first began operations in September 2001, I likened the experience to my first day at school as a young boy. There I was, taken to this strange place by my parents and told to go inside with absolutely no idea of what was about to happen. Yes, I was frightened because of the unknown. I was pushed into a new environment that was now to become part of my everyday life. I was on my own, in a classroom filled with strangers, and my comfort zone could not have felt any further away than it did in that moment. Realizing I was truly on my own, I knew I needed to do everything to make this "school thing" work because there was no going back.

And likewise, on Sept. 11, 2001, I again found myself in a very similar, uncomfortable environment. I felt alone and in doubt of my future and the future of this new firm. While sitting at my desk, watching the Trade Towers burn and fall on the television, I questioned our ability to make it. But what I realized was that I needed to do whatever was necessary to get the job done. We needed to focus on the task at hand and move ahead, despite bearing witness to America's worst hours. We did make it through that day and, though the weeks ahead were difficult, we did eventually settle in and complete the work required of us; that is, to serve our clients in the best possible way we could under those difficult circumstances.

In the last nine years, the financial services industry has seen and endured many hardships and scrutiny from the public. But despite those darker moments, the honest advisors who've embraced their role as a trusted fiduciary have endured. However, the road ahead is still uncertain.

Since 2001, there have been many amendments, rules and laws enacted by our governing bodies, but nothing will affect our industry the way the new Dodd-Frank Bill Consumer Protection Act of 2010 will. The law touches on the banking industry, consumer credit, laws and rules governing accrediting agencies, and the financial services industry.

The most obvious changes will pertain to the new fiduciary standard and how it applies to your practice. It even suggests that FINRA could replace the SEC as our industries SRO.

These new rules and regulations are going to be implemented at various times over the next 15 months and, likewise, must be reflected in your practice. Like many moments over the past nine years, we are now faced with another that could seem overwhelming, scary or unclear. It is paramount that we are all aware of what's coming down the pipeline. APA is diligently reviewing, studying and working to understand these regulatory changes so that we may efficiently implement them into our RIA and, then, into your practice through a process of clear communications with you. This will be facilitated in a number of ways, including e-mails, postings to our newsletter, our scrolling screen on the advisory services area of the AP Broker Web site and, of course, through individual calls to you to discuss your particular needs and questions.

What I'd like all of you to do is twofold. First, continue to stay focused on your clients. Second, heed the advice of General Counsel Frank Tauches and e-mail your congressmen and women in an effort to be proactive about the proposed legislation that will affect you and your business. Refer to our site. Look at our e-mails. Become a member of FSI to obtain direct links to pertinent information. Read the newsletter and get the data you will need so you can implement change as required. Remember that making the statement "I didn't know" will not be an acceptable answer from a fiduciary to an auditor of the SEC. "I didn't know" didn't see us through the last nine years; continued due diligence and effort—despite uncertainty—did. You must make it your business to know and we're here to help you.

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In the last nine years, the financial services industry has seen and endured many hardships and scrutiny from the public. But despite those darker moments, the honest advisors who've embraced their role as a trusted fiduciary have endured. However, the road ahead is still uncertain.

BOOMER BEAT

ILLUSTRATION BY ALEX FINE

ESTATE PLANNING CONSIDERATIONS — *for* — HARD ASSETS

by William P. Donahue and Paul Donahue, APFS colleagues and Laura Dunathan, Esq.

In evaluating and analyzing our client base, we recently discovered that a good many of our baby boomer clients have become hard asset rich, yet cash poor. While some might consider this a good problem to have, it is still a problem nonetheless. When working with these clients, we first advise them to build up the liquid portion of their investment portfolio to prevent them from having to sell a part of their hard assets (i.e. an acre of land or one of their investment properties). We then engage them in an estate planning dialogue for passing their hard assets onto their heirs. To that end, a colleague and estate planning attorney we work closely with, Laura Dunathan, graciously prepared this informative article exclusively for FREE regarding the estate planning issues surrounding hard assets. While some of the content makes reference to New York estate tax laws, the piece also offers broad but technical estate planning solutions for this particular issue.

With an increase in land values over the last 20 years, many baby boomers—especially on Long Island—are now finding themselves asset rich, but cash poor. With the federal estate tax returning in 2011, homeowners are wondering what they can to do ensure that their estate will have the liquidity to pay estate taxes, while at the same time retain real estate for their heirs.

New York state currently imposes a tax on estates in excess of $1 million. On the federal level, the estate tax has been replaced with an income tax until Jan. 1, 2011, at which time the estate tax will return. Assuming Congress does not make any changes, each individual will be able to pass $1 million free of estate tax on Jan. 1; this amount is often referred to as the estate tax credit. In addition, married couples are entitled to an "unlimited marital deduction." This means one spouse can leave everything to a surviving spouse free of estate tax. However, without proper planning, the use of this marital deduction does not allow the first spouse's estate tax credit to be utilized. Thus, the following question is raised: What can you, as planners, do to ensure that these tax credits are being properly utilized and incorporated into your clients' financial plans?

The first step is to make sure your clients wills are in order. In a scenario where both spouses are still alive, the wills should allow them to take advantage of each other's estate tax credit. This is often done through the funding of a trust upon the death of the first spouse. The trust, often known as a "credit shelter trust," benefits the surviving spouse for the remainder of their life. It can be funded automatically or at the discretion of the surviving spouse.

It is also important to make sure your clients' wills have appointed the right person for the job of executor. An executor is responsible for gathering the assets of the estate, filing all required tax returns and distributing the assets in accordance with the will. Estate taxes are due within nine months of an individual's death. Without other direction—and if cash needs to be raised to pay the estate taxes—the executor decides which assets to sell and when. Whom you appoint to handle this will determine how efficiently your estate is administered and ultimately distributed.

The second step in planning for your clients is to consider the type of property they have, and what its current and potential uses are, because a large part of reducing their potential estate tax is dependent upon what type of property they own.

PERSONAL RESIDENCE

If you need to plan with a personal residence or a vacation home, you should consider creating a Qualified Personal Residence Trust (QPRT). A QPRT is a trust created by someone who wishes to make a gift of their residence (or vacation home), but still retain some use of the property. The property is transferred to the trust and the trust provides the grantor (the person creating the trust) with the right to use the property for a certain term of years. At the expiration of the term of years, the property is transferred to the beneficiaries under the terms of the trust. Upon creation and funding of the trust, the grantor is considered to have made a gift to the ultimate beneficiaries of the trust. The value of the gift for gift tax purposes is the value of only the remainder interest in the property. For gift tax purposes, the current value is reduced by the grantor's retained term. The value of the grantor's retained term is calculated based on the length of the term, the age and life expectancy of the grantor and interest rates as published by the IRS. Thus, the longer the term retained by the grantor, the smaller the gift to the remainder beneficiaries.

But here's the catch.

The grantor must survive the retained term or the full value of the residence will be included in his estate, and the estate will be credited back whatever credit was utilized or tax was paid on the prior gift. In other words, the grantor will be in the same position as if the trust was never created. On the other hand, if the grantor survives the retained term, the benefits can be substantial. Generally, depending on the age and the interest rate at the time, a seven-year term could result in a reduction in the value of the property by about 30 percent and all future appreciation is removed from the grantor's estate. At the end of the term, the grantor could rent the property from a continuing trust or from the ultimate beneficiaries. The rent payments also help to shift assets from the grantor to his/her heirs without additional gift tax consequences.

BUSINESS PROPERTY

If you own rental property, whether commercial, residential or farmland, you should consider a GRAT (Grantor Retained Annuity Trust). Whereas a QPRT is a trust for a "personal residence," a GRAT can be used for commercial property. First and foremost you should consider owning the commercial property in a Limited Liability Company (LLC). A LLC is an entity similar to a corporation or a partnership and offers several benefits including limited liability protection, family business succession planning benefits, and estate and gift tax benefits. Once a LLC owns property, the LLC interests can be transferred to a trust. Instead of retaining the right to use the property, the grantor instead retains an annual payment out of the trust for a certain number of years. The value of the gift to the trust is reduced by the annuity payments and only the present value of the remainder interest is reported on a gift tax return.

In evaluating and analyzing our client base, we discovered that a good many of our baby boomer clients have become hard asset rich, yet cash poor. While some might consider this a good problem to have, it is still a problem nonetheless.

The best type of asset with which to fund a GRAT is an income producing asset that is likely to appreciate. If the trust does not produce enough income to make the annuity payment, the balance of the payment will be made through a return of interest in the LLC. The grantor must survive the term for the trust to be effective. Again, the property and all future appreciation are removed from the estate.

PROPERTY WITH A SPECIAL USE OR LOCATION

The third category of property is that which has a special use. This is a very broad category and encompasses farmland, property in a great location, property with a history or property within certain ecosystems. In these circumstances, a landowner may wish to consider a conservation easement or the sale of development rights. Each one of these is specifically tailored to the goals of the landowner, which may or may not be tax-benefit driven.

A conservation easement binds all future landowners to comply with easement terms, such as prohibiting use other than farming or precluding further subdivision. The donation of a conservation easement to a local government or a private organization causes an immediate charitable income tax deduction for the fair market value of the gift. There is a corresponding charitable deduction for gift tax purposes. For estate tax purposes, when a conservation easement is given, the value of the land is substantially reduced. Instead of transferring for no consideration, a landowner may be able to sell the development rights to a local government or private organization. The sale raises cash for the landowner and depresses the value of property ultimately includable in the landowner's taxable estate.

These are very intricate estate planning techniques, but ones that could prove beneficial for your clients. Consulting a tax attorney is recommended to determine which of these techniques are appropriate for your clients.

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American Portfolios does not offer tax or legal advice. Always consult the appropriate professional.

VIEW FROM THE FIELD

NUA

A Little Known IRS Rule That Can Lead to Big Tax Savings

by Jane Desmond

IF YOU HAVE clients who have accumulated company stock in their employer-sponsored retirement plan and who are nearing, or are at, retirement, you may have an opportunity to help them take advantage of a special IRS tax exclusion rule, NUA (Net Unrealized Appreciation).

With so many unemployed executives today that have held on to their company's stock, you may find an opportunity to discuss options that many are not aware of.

The NUA rule applies to distributions of company stock from the company's qualified plan, and allows clients to withdraw that stock as part of a lump sum distribution and invest it into a taxable brokerage account instead of rolling it over to a traditional IRA. The tax on the NUA may also be deferred until the stock is sold. However, to defer on the full NUA, the employer stock must be received in a lump sum distribution. You are only taxed on the original cost of the stock contributed to the plan. Tax on the appreciation is delayed until the shares are later sold at a price exceeding the cost basis. The gain will be taxed at long-term capital gain rates.

Knowing this rule could help save your clients considerably if the situation is right. I recently had an appointment with a potential client retiring from Verizon with a large holding of Verizon stock in her company plan. I was the third advisor she contacted looking for some answers. After hearing what the first two advisors had recommended, I asked if either had advised her of this special NUA ruling and the tax savings she may be entitled to. She had not been informed by either and both were ready to rollover her plan into an IRA. Needless to say, she was very impressed with what I told her and we are now in the process of looking into the cost basis of the stock to see if this option makes sense for her. If there is appreciation, the shares can be transferred to a non-qualified brokerage account. Tax will be paid on the original cost basis of the shares, not on the current value. When the shares are sold, the tax will be paid at the long-term capital gains rate on any appreciation that exists at the time of the sale.

This strategy does not work for everyone, however, and makes most sense when the stock has appreciated considerably. For some, an IRA rollover may make more sense than taking some or all of the employer stock as an in-kind distribution. For example, on another case, I rolled over the assets of a client that held onto GE stock in his company plan, as it was dropping considerably. I advised him of the NUA ruling, which sparked his interest as he did not want to sell GE. After speaking with his benefit department, we determined the NUA ruling would not work for him because there was no appreciation on the cost of GE purchased over several years. He finally realized that it was time to diversify and rolled over the assets to an IRA advisory account.

Understanding the details of this little known rule may prove to be a valuable strategy in saving your clients money. It is important to familiarize yourself with this special rule as many advisors, without knowing it, roll all of their client's assets into an IRA; this move cannot be reversed. It is important to run the numbers and see if this will be beneficial for the client.

There are very detailed and informative pieces on the NUA rule and strategies surrounding it. Both Oppenheimer and Putnam have client pieces on their Web sites which provide detailed examples and scenarios.

ILLUSTRATION BY ALEX FINE

1. Oppenheimer—Under IRA's—"A Tax-Advantaged Strategy for Select Investors"
2. Putnam "Understanding the NUA Rule"

With so many unemployed executives who have held onto their company's stock, you may find it beneficial to familiarize yourself with the rule and strategies, and capitalize on opportunities to save your clients money—opportunities that other advisors may not be aware of.

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American Portfolios does not offer tax or legal advice. Always consult with the appropriate professional to review individual circumstances.

ECONOMIC AND MARKET COMMENTARY

Is the Great Recession Really Over?

by Patricia Powell

AFTER RISING SO quickly from the ashes of the March 9, 2009, bottom (when the DJIA closed at 6,547.05, rising to 11,205.03 on April 26, 2010, a 71 percent increase), it can hardly be a surprise that the progress of the domestic equity markets has faltered. Almost six months later it hovered close to that same number, closing on Oct. 21, 2010, at 11,146.57. I suspect that it is economic confusion and uncertainty that contributes to the range-bound markets we experienced from April 2010, to October 2010. It seems to me that the easy early profits of the recovery have been made. Now it gets harder.

The U.S. recovery is clearly slowing down; unemployment numbers remain stubbornly high and persistent housing problems continue to be a drag on the economy. There are credible forecasts that more than 1 million homes will go through foreclosure in 2010. Some economists are looking ahead to a double dip recession.

On Sept. 20, 2010, the National Board of Economic Research (NBER) declared that this recession was finally over! The NBER called the bottom to be June 2009. The recession lasted 18 months, but if your clients are anything like mine, most just don't believe that it's over.

It seems hard to make an optimistic case, but I think that the positive case is just as credible as the negative. Consider the high labor productivity rates combined with significantly higher savings rates and declining consumer debt. Add to that improving corporate profits and balance sheets. While the FOMC has lowered its projection for GDP growth in the second half of 2010, it still anticipates a moderate strengthening of the expansion in 2011. This could and should bode well for the future.

I believe that those moments of great economic peril in September and October 2008 are well behind us. I believe that we are now dealing with the economic cleanup and all the political consequences that follow major economic downturns. It sometimes seems as though any and all problems must be someone's fault, and require a government fix.

But in considering what I am doing for clients and with client money, I try to merge the facts with economic and investment principles. In the end, we have to put it all in the context of what we believe.

For instance, I believe that:

The anti-business climate in Washington has not helped and will not help the economic recovery. It is a headwind on the economy and our clients' investments. Note: this is not a universally accepted fact. A client of mine was quick to point out that he thought the bailout of auto companies, AIG and the banks were pro-business events. We observe the same facts, but interpret them differently.

Odd events like the May 6 "flash crash" have somewhat eroded investor confidence. This was followed by the less spectacular, but equally odd, market behavior in CISCO trades on July 29, 2010. The level of importance of these market/trading events is unknown. They may turn out to be extraneous events of no importance; they may turn out to be early warnings.

The BP oil spill in the Gulf depressed everyone. It didn't matter if you were an environmentalist or in the "drill, baby, drill" camp; we all cringed to see the impact on wildlife, the Gulf states and the local economies.

High unemployment will be with us for many years to come. The labor productivity numbers indicate that those who kept their jobs have been working harder and producing more. We have to reach a point of diminishing returns, but we don't seem to be anywhere near that point, at least not yet.

I try to merge the facts with economic and investment principles. In the end, we have to put it all in the context of what we believe.

Federal Reserve Chairman Ben Bernanke was specific in his August 2010 speech when he stated that the **central bankers of the world could not do it all.** To a great extent the Federal Reserve and other central banks have done what they could do. Clearly central banks did not make the same mistakes that were made leading up to and during the Great Depression; but that does not mean that they have not made new mistakes. There may well be a price to pay for all this liquidity!

Despite low mortgage rates, **the housing market remains stubbornly weak.**

GDP is slowing, and may stall.

For about a year now, our strategy at The Powell Financial Group Inc. has been to:

- Maintain a less-than-typical exposure to equities
- Use agricultural commodities, as well as hard commodities, as investment alternatives; ETF's have been an efficient way to introduce new asset classes into our portfolios
- Rebalance each advisory account continuously
- Increasingly (but not exclusively) use limit orders for ETF's and individual stocks

Going forward, we anticipate that the risk/rewards of equities in comparison to fixed income alternatives will be more and more attractive, and we would expect to increase portfolio equity exposure back to more typical levels allowed within a client's risk tolerance. Beyond that we would anticipate little change; we would mostly expect to continue to use the above strategies for the remainder of the year and into 2011.

We continuously seek out new investment concepts and ideas; we review and/or study them—in some cases we test them, in most cases we reject them. Change is the one constant that we have to deal with.

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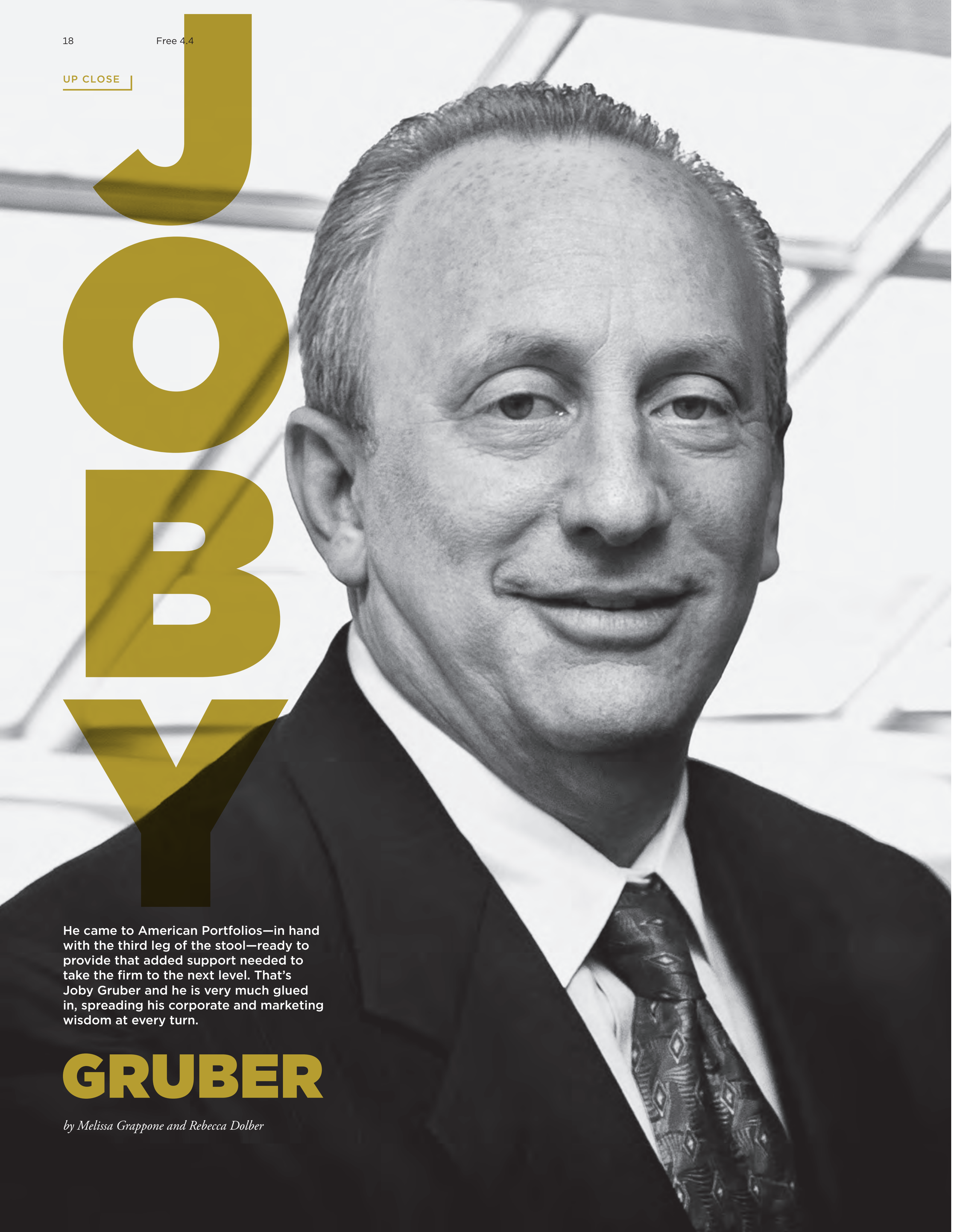
The views in this commentary do not necessarily represent those of APFS and are not intended as specific investment advice.



JOBY GRUBER

He came to American Portfolios—in hand with the third leg of the stool—ready to provide that added support needed to take the firm to the next level. That's Joby Gruber and he is very much glued in, spreading his corporate and marketing wisdom at every turn.

by Melissa Grappone and Rebecca Dolber

FREE: **Tell us about the specific roll you play at American Portfolios.**

Joby Gruber: Well the specific title is president of national sales and marketing. In my original conversation with Lon, what I recognized and what he recognized was that for the last nine years, the firm had paid attention to the technological and operational side, but not as much on what I would call the sales and marketing side. So my job is to bring that third leg to the stool.

FREE: **Why did you decide to join American Portfolios?**

JG: I worked with FSC for just shy of 24 years. When I left, the one thing I knew for sure was that I wanted to remain in the financial services industry; aspects of it fascinate me. When I talked with Lon about coming to AP, it reminded me of FSC in terms of the company's passion for the business, and the dedication that the management team and all of the employees brought to the day-to-day operation. I knew that working here would be an opportunity to help Lon really complete his vision of wanting to build something great.

FREE: **You saw FSC grow exponentially over the years. How was the culture maintained?**

JG: In the time I was at FSC, we saw a substantial increase in gross revenue, as well as in the number of home office staff and number of advisors we had. The key to maintaining the culture at any firm is to keep the lines of communication open between you and your customer; for us, that's our advisors in the field. Most importantly we need to listen. At FSC one of the easiest ways we measured that was through our achievement—in eight separate years—of earning Investment Advisor Magazine's Broker/Dealer of the Year Award. What the magazine does is give affiliated advisors the opportunity to vote and pass judgment on whether or not their B/D is No. 1 in a particular category. As with FSC, I want to take everything that Lon and the management team have built and leverage that to see if AP could accomplish Broker/Dealer of the Year, while at the same time not diminish any aspect of the culture of the organization. We'll do what we have to do here in order to accomplish that.

FREE: **What other goals do you have in mind for your tenure at American Portfolios?**

JG: From a vocabulary standpoint, I want to introduce the term "business owner" as a way to refer to our advisors. The second is to introduce the concept of a business partnership—a three-way business partnership between the home office, the advisors affiliated with the broker/dealer and the RIA, and our focus partners. You'll find that any three-legged stool will not stand without all three legs being secure. One of the goals is to leverage each of the strengths of those three entities to help advisors become better business owners. And finally, the third goal will be to focus on the practice management arena with respect to the industry, and make sure that practice management becomes a tool that our advisors and business owners can use on a going-forward basis.

FREE: **What plans do you and the team have for the 2011 national conference?**

JG: The conference will be celebrating the company's 10-year anniversary—one that ties in with 9/11—and serves as the perfect opportunity to acknowledge the partnerships with our valued advisors. Specifically what you're going to find are thought-provoking keynote speakers outside the norm. There will be an array of advisor-led sessions where we'll ask some of our top advisors to share their practice management tools and how they manage their business. I strongly believe a peer-to-peer relationship or an advisor-to-advisor relationship in the business is one of the strongest tools we can have; we want to make sure we leverage that. We also will be working with our partners to elevate their sessions on "how to grow the business" from a 'business" perspective. There will also be a room dedicated to the firm's technology offerings, as well as to our core providers like Pershing and Albridge. With that said, the firm is growing. It's no longer a regional firm based in the northeast. We now have a national presence with advisors located in a number of states throughout the country. That's the reason we've elected to do the meeting in Orlando; to identify a location that I believe all of the attendees will be very excited about.

I think that Lon is the type of person that can transform a firm to greatness and doing so starts with surrounding himself with the type of people that will help him get there; and a lot of its going to start with him telling the story to a larger audience.

FREE: **How do you think American Portfolios can move to the next level?**

JG: I listened a lot to Lon speak about moving from a good firm to a great firm. He wants to make sure that the culture and heart of the organization exists even when he's not there. My goal is helping him do that—to make sure that we take the culture he's embedded and continue to maintain it. Again I go back to the business partnership approach; the message we deliver to the home office, the field and the focus partners is exactly how our culture is going to continue to help us through these challenging times. I also want to make sure that Lon is in a position where he shares his story with as many people as possible. Its one thing to put it in writing; it's another to listen to Lon and to sit with him and recognize how genuine he is, how transparent he is and how truly passionate he is for the business. I think that Lon is the type of person that can transform a firm to greatness and doing so starts with surrounding himself with the type of people that will help him get there.

FREE: **What's the best piece of advice you can give to someone overcoming adversity?**

JG: That is to stare the adversity straight in the face; to be open and honest with respect to what's in front of you, to partner with people you've connected with over the years and to have a very strong support group to help you through those difficult times. Then, at some point, you simply get up in the morning and move on.

FREE: **You recently celebrated your 25th wedding anniversary. What's the secret to a strong lasting relationship?**

JG: I think the biggest secret is the fact that there are no secrets. Relationships have to be very candid. I think the second secret to having a good relationship is being lucky enough to marry your best friend. It's all about trust, laughter and friendship.

FREE: **We hear you are a connoisseur of cuisine and cooking. What do you love about it?**

JG: There's nothing better in my world than sitting down with my family and having a fun meal. It's no secret to people who know me that I'm not a fan of chain restaurants; but when I travel, some of my favorite write-ups would be eating at an advisor's house because some of these spouses can cook like there's no tomorrow. It's a great way to have a conversation with someone, a great way to get to know people. But sometimes when I'm just running too hard, there's nothing better than winding down, opening a bottle of wine and finding something that I enjoy cooking. I turn off the cell phone and literally get immersed in the process of preparing food.

FREE: **So what's for dinner tonight?**

JG: Dinner tonight is going to be peppered Ahi Tuna and a vegetable medley. It's one of the fastest things I can cook, too! I buy this Sashimi grade Ahi Tuna, cut it into six ounce blocks, cover it with olive oil, salt and pepper, coriander and sear it for 45 seconds on each side. It's seared on the outside, but rare on the inside. I thinly slice it and put some wasabi sauce off to the side.

FREE: **Sounds delicious. Bon appétit.**

JG: Thank you.

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REP FEATURE

The town of Topsfield, Mass., is the epitome of charming. The quaint, colonial village in northern Massachusetts sets the scene for the fall season; it's easy to imagine the leaves on the trees changing color, the scents of pumpkin and spice in the air, and the community gathering for fall festivals on the streets lined with houses reminiscent of the area and a time long ago.

by Shauna K. Faulkner

SET IN THE center of that community is Topsfield Station; the red railroad station, once the location of the long-gone train depot, has been rebuilt for office space. In the picturesque building sits the offices of Topsfield Financial Group, home to APFS affiliated colleague James Ugone. For Ugone, life is meant for taking chances, and this is something he does in both his personal and professional lives, as he works to keep up with the current market trends, and the dreams and aspirations that fill his head and heart.

Ugone started his career as the farthest thing from an investment advisor—he enriched the minds of high school students, teaching horticulture. However, after 10 years in that field, and much contact with local farmers, Ugone started on a path that would lead him to where he is today.

"I made the transition from teaching into the world of finance by becoming involved in the insurance and risk management needs for people in the green industry; back then, anyone that had anything to do with farming," Ugone said of his evolution into the finance industry. "I had a successful insurance practice for almost 18 years before I started to shift into managed money."

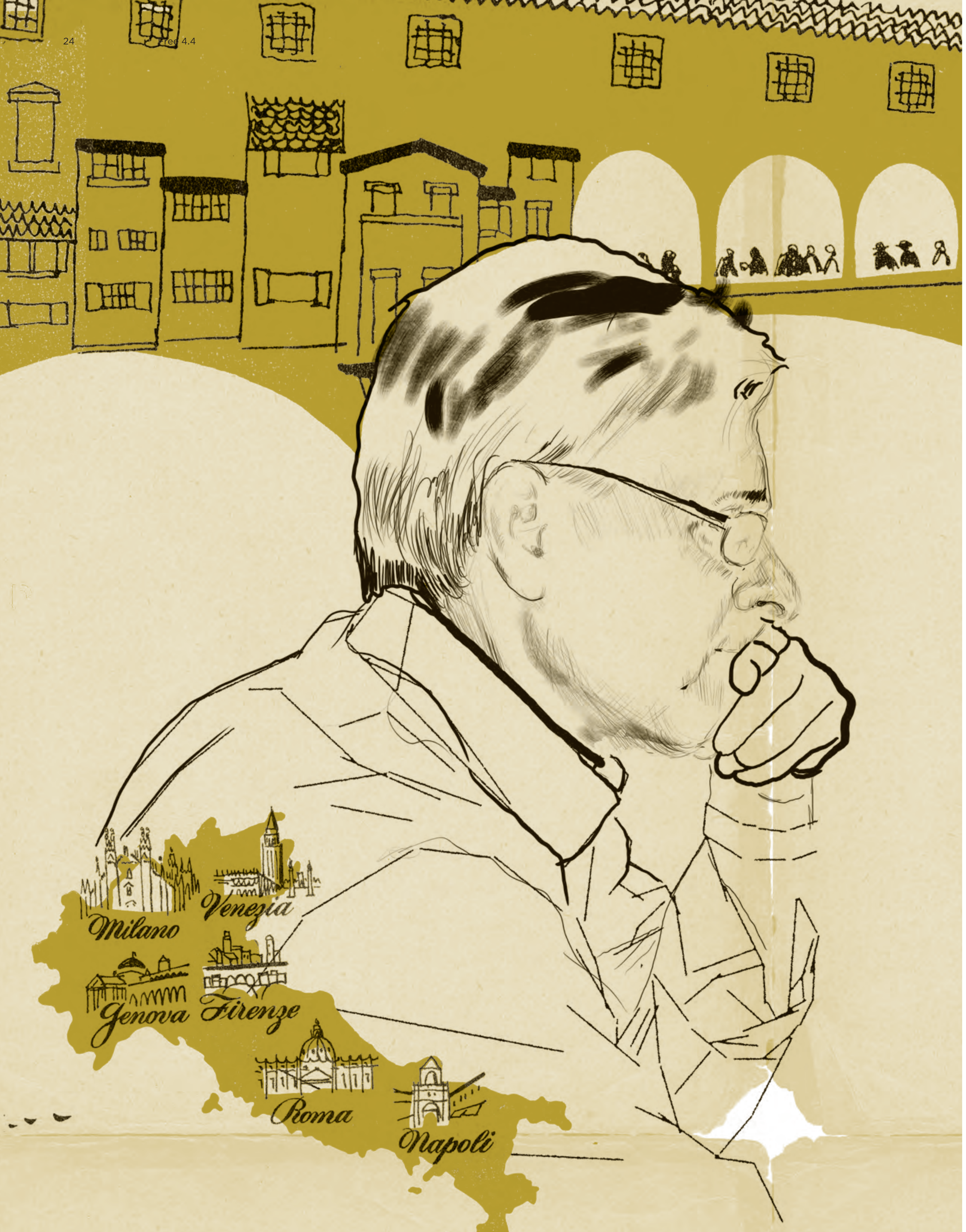
For Ugone, that shift to managed money began during the last half of his tenure as an insurance agent; he observed the farmers he served selling their land in the boom times of real estate and coming away with considerable amounts of money, but not a lot of knowledge about investments. What he realized was that if he expanded the scope of his expertise beyond insurance, he could serve those clients—and their assets—more effectively. So in 1995, after more than six years in business as an insurance agent, Ugone began to expand into investments. Originally with Commonwealth Financial Services, he joined American Portfolios Financial Services in the firm's early stages and has never looked back.

I am an advisor for the masses. I have some high-net clients, but most of my clients are regular, middle-class people trying to do a good job saving for retirement and finding ways to pay for college, while attempting to identify the elusive balance between savings and debt.

In 2000, with several years of investment experience now under his belt, Ugone began to focus almost exclusively on money management. In 2005, he started the process of selling his insurance practice. In addition to a permanent change in his business, this move also signaled a change in the way Ugone and his family would live for the coming year.

"The first thing that I did after the sale of the insurance practice was to take some time off, in a way; it was important to distance myself because I needed the person who I sold my business to, to stand on his own two feet. This world is so small, and I needed to remove myself completely geographically. There was also the fact that my wife and I were digesting the impact of her recently having had a brain tumor removed, and us wanting to spend as much time as possible with our son, Gavin, while he was still a boy as we knew he would be grown up and gone before we knew it. So, my wife, son and I moved to Italy for almost a year."

Ugone found that, while certain aspects of the move were difficult, he could still manage his investment practice from another continent. "I found that you can actually manage money from anywhere. It seemed like I could be on a space shuttle to do what I do, because in reality I don't have that much physical contact with my clients. We had a computer and a phone, so I was able to work from Italy without any break in service. The transition on the time difference was that 9 a.m. to 3 p.m. in the United States was 3-9 p.m. in Italy, so it worked out well. I would go to my office in Florence from 3-9 p.m. and handle calls just as though I were handling them from my office in Massachusetts. The fact that I didn't necessarily need to be in the same vicinity of my clients was an interesting lesson."



For Ugone and his family, the experience of living in Italy was both a dream come true and a "dreamy experience." They made the most of their time there, spending two weekends each month exploring the country and becoming very knowledgeable on the Tuscany region. And, as Italy is considered one of the hubs of Europe, they made it a point to spend the remaining two weekends in the month visiting other countries and cultures, from Prague to Dublin, and Barcelona to Amsterdam. In addition to their explorations, the Ugone family took language and cooking classes to better appreciate the Italian culture.

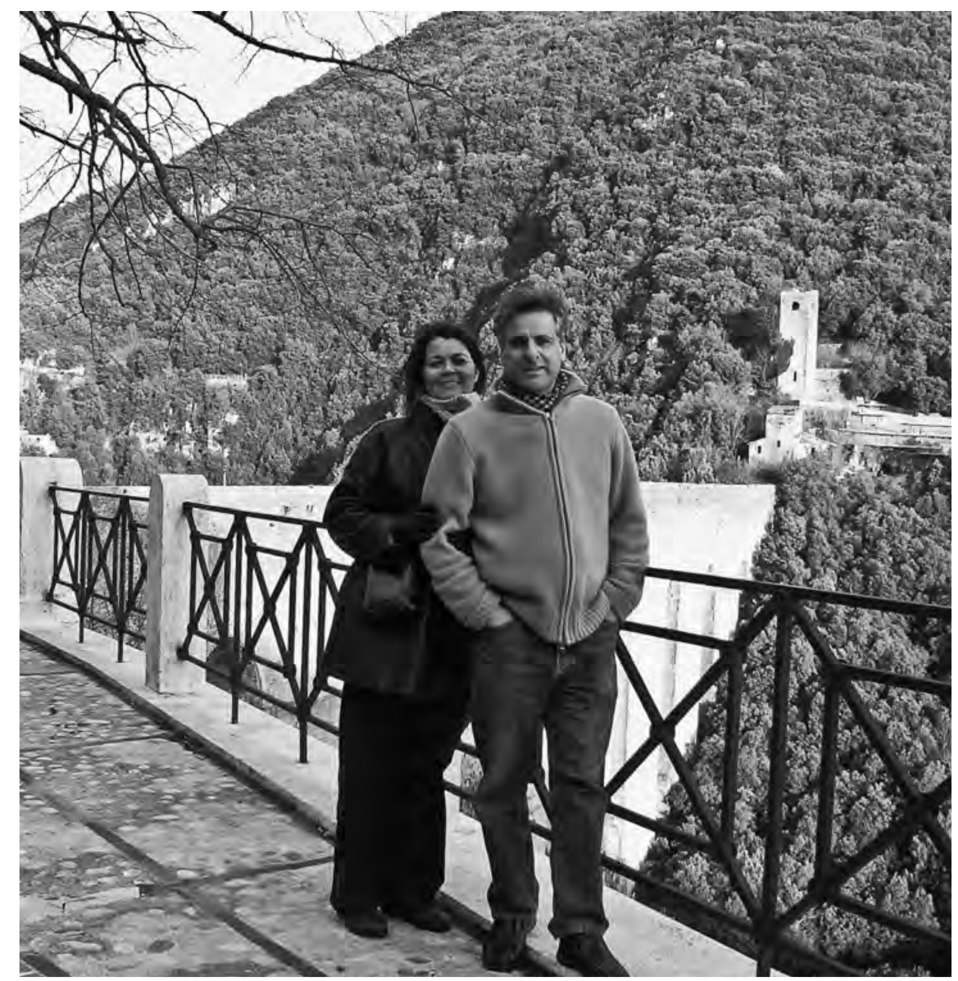
Each day is meant for living. If you idle high you need to occupy yourself with personally and professionally-enriching activities and just do them… It's about doing what makes you most happy and fulfilled.

At the end of their year abroad, however, it was time to go back home, and to reality. "It's actually really funny. You spend an entire year of your life in a completely different place and, in ways, you feel like a different person, but when you come back home, things are still pretty much the same; your lawn looks about the same, your neighbors are the same and there are the same shops around the corner."

One thing that wouldn't remain the same, though, was Ugone's practice.

"It seems to be that we still don't see a lot of clients today. My clients certainly get their statements each month or quarter, but I felt I needed to do more than that. Certainly seeing clients face-to-face is important, but it's usually the same clients that take the time to come in and it's the same clients that you never see. So, what I did differently in my transition from Italy to the U.S. was not only come back and be physically close to my clients, but I changed the way in which I conducted business."

One thing Ugone did was to modify his business model, moving to a fee-based practice. For him, there were two deciding factors in making this switch. The first was that, with 150-200 clients, he couldn't physically make changes to their portfolios at the same time. For him, this raised a problem as—limited by the trading hours and his physical ability to address each portfolio—it could take him as long as two weeks to make a change in a portfolio. The problem was further complicated when Ugone was confronted with the decision of where to start; A's this month and Z's the next? Or should he start with the clients with larger accounts? For him, it was difficult to implement any strategies he had for a client in a fair fashion.



The second factor that played a part in Ugone's move to a fee-based practice was that he wanted to be more unified and fair in the amount of compensation he charged all clients. This desire caused him to create a fee structure. With this, he was able to handle the concerns of making a move so all his clients were recognized in the decisions he would make on their behalf with regard to the portfolio. This also led him to create an investment philosophy, which allows all of his clients to know who he is, as their advisor, and what moves he will make in investing their money.

The creation of an investment philosophy and a quarterly newsletter keeps Ugone's clients updated on the market and his strategies, and allows him to keep in better touch with the clients he serves. For him, this is an important aspect of business, especially as the stock market continues to fluctuate and cause concern for the families of everyday America—the families that work hard and have so much to lose. To this end, transparency is key.

"I am an advisor for the masses. The majority of my client base consists of middle-class, dual-income households. I have some high-net clients, but most of my clients are regular, middle-class people trying to do a good job saving for retirement and finding ways to pay for college, while attempting to identify the elusive balance between savings and debt. I find the ultra-wealthy don't have as many of those concerns, and unfortunately people below that are just striving to make ends meet. I want to take the approach of transparency so my clients develop a better understanding that I'm really trying. If I ultimately fail at this business, or don't sleep at night—which I sometimes don't—it's because their objectives, family goals, and college and retirement funds are in my hands. Sometimes it's an

overwhelming sense of responsibility and I take that very seriously. I never want to let anyone down."

However, part of not letting anyone down means that Ugone has to take some time for himself to embark on the adventures that make life worth living. And, believe it or not, his hiatus to Italy is only one conquered challenge on a list of many.

"I consider myself a bit of an adventurer. I've been north of the Arctic Circle, traveling about 4,000 miles by canoe in two separate expeditions that recreated the routes of the original explorers. We were the first canoeists to rerun the rivers that the explorers had found in the 1600s. We would go for three months at a time with only one additional change of clothing and just enough food to get us through. We would paddle—if wind and weather permitted—as much as 20 hours a day and as much as 60-70 miles a day, if the current was with us, through arctic conditions. Eventually we paddled mostly north of the Arctic Circle, known as the 'land of the midnight sun,' and both times our end point was the Arctic Ocean.

"My first year of teaching was in a one-room school house on a Pueblo Indian reservation. I've lived in Europe for a year. I've created an invention and brought it to fruition. And all of this while making sure to spend as much time with my family—I never lose sight of the fact that my 16-year-old son will be off to college soon, and so I attempt to make the most of our time together—and continuing to run my practice."

The invention that Ugone speaks of is The U Can Watering System, which has been described by Good Housekeeping Research Institute and About.com as the "perfect watering can" and was selected as one of the top gardening tools for 2010. The invention came from Ugone's passion for horticulture and gardening. From idea to marketing, the invention took Ugone two years and, while he describes the success of the product as "low due to almost inescapable barriers of entry," he is proud he accomplished his goal, and grateful for the experience the venture gave him.

The fulfillment of dreams seems to be a way of life for Ugone. According to him—no matter at what stage of life—a person can accomplish whatever they want, both in their personal and professional lives, without sacrificing one or the other. This is something he takes to heart, and a message he hopes to pass along to his son.

"Each day is meant for living. If you idle high, you need to occupy yourself with personally and professionally-enriching activities and just do them. I don't tell myself 'no' when it comes to being able to do anything. I took on skiing at age 50, I've become a pretty good fly fisherman, I am in the process of writing a book of children's poetry. Over the years I've tried to give back to my community by serving on various town committees and as a board member for a non-profit horse farm for children with disabilities. It's never too late to accomplish what you dream of doing or to do something fulfilling. Life is for the living. It's about doing what makes you most happy and fulfilled. Tonight, it's driving lessons with my son."

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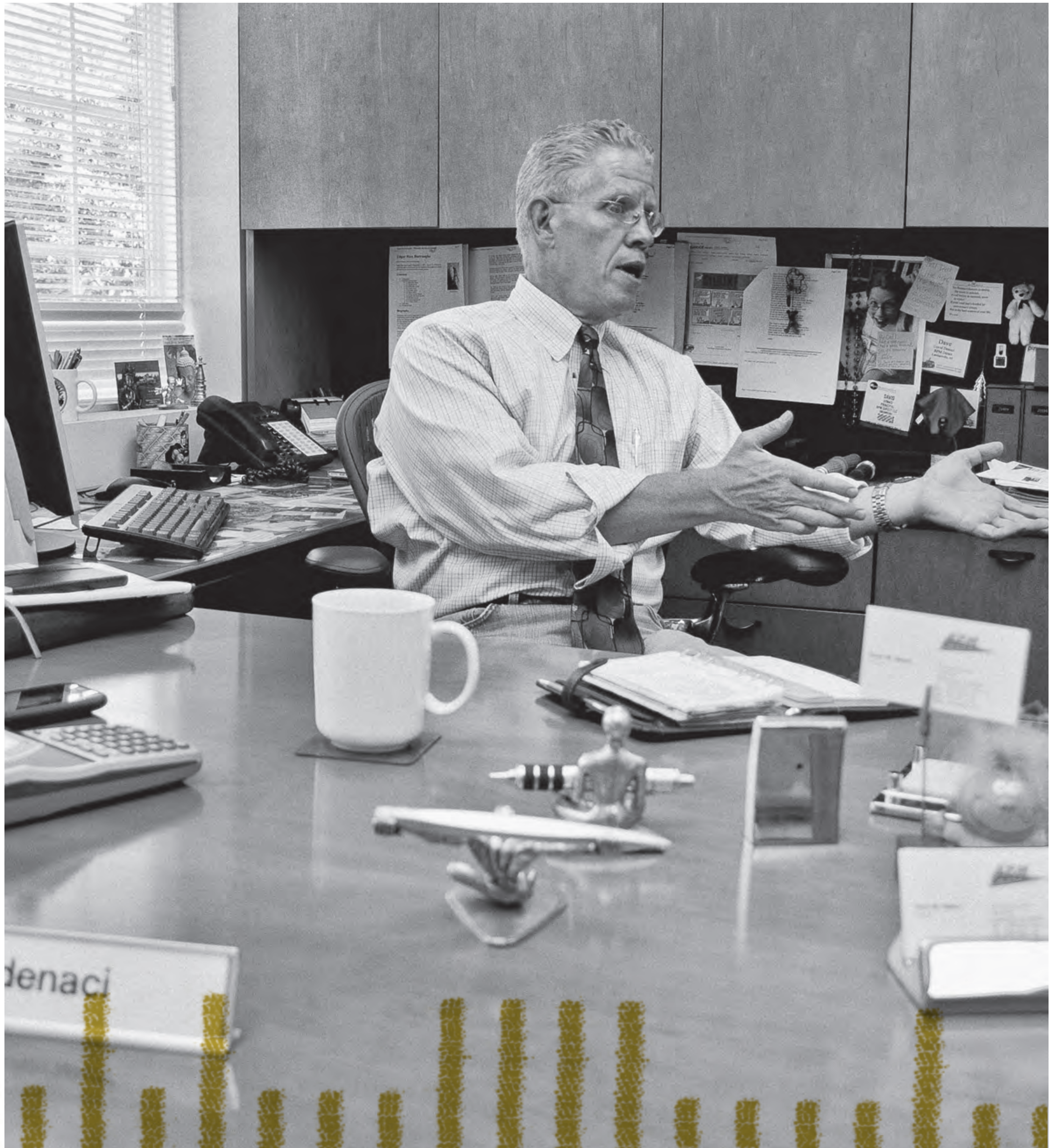
CLIENT PROFILE

AUTO

DAVE DENACI is a principal and one of the founders of R4PM Direct, a direct-mail marketing company that specializes in producing profitable leads for auto insurance companies. He is also a top client of APFS Managing Director Ron Chakler. So when FREE went looking for an end-client with entrepreneurial spirit, we were pointed in his direction. See how this sensible manager transitioned out of corporate America to become a successful business owner who places top value on both the quality of the product he delivers, as well as his employees' well-being.

Interview by Rebecca Dolber ★ *Photos by Andrea L. P.*



FREE: Before you founded R4PM Direct with your partner, Peter Pala, you were both successful senior executives at major insurance companies. What prompted you both to leave?

Dave Denaci: I had started out in marketing at American Express and worked for a number of different insurance carriers. Pete and I had worked together and launched profitable marketing initiatives in a succession of corporate startup divisions. We had spent a few years working out a methodology that used highly targeted direct marketing techniques to produce the kind of customers that insurance companies want. It involved building customer databases and overlaying those consumers with hundreds of variables of data, creating statistical targeting models based on those variables and then soliciting those prospects through direct mail. We did this inside corporations and, frankly, it occurred to both of us that if we started out with four to five people, took the corporate overhead off of the corporations—all the meetings, all the "training," all the things that corporations find for you to do day in and day out that have nothing to do with business—and paid these four of five people above-market salaries, as well as good bonuses, we could have the resources to work for more than one carrier at a time. We knew that would cut our overhead and with the increased volumes, we could go to suppliers, get lower costs and wind up doing this for the insurance companies better and more efficiently then they could do it themselves. And basically, that's what we did.

FREE: What were the challenges associated with going out on your own?

DD: Well there's the obvious challenge of going from being a highly compensated senior executive in a big corporation to working out of someone's spare bedroom. Then there was the additional financial challenge of the sales cycle associated with this kind of insurance marketing. From the time we start talking in the sales chain to actually doing business, it takes about nine months. So basically, the challenge was sticking to the vision until we got a client and were able to layer other clients on top of that.

FREE: Many of your colleagues came over with you when you started R4PM Direct; you're obviously a good leader. Do you have a particular management style? Why do you think people want to work for you?

DD: (Laughs) That's a mystery! Well, we try to create a certain kind of culture here. We pay people better than market salaries. On top of that, they get very big bonuses at the end of the year and we pay 100 percent of their benefits; we even reimburse them for co-pays. When people want or have to bring their kids to work, that's fine; we're a family-friendly place. We even have dogs running around sometimes, if our employees need to bring them to the vet during the week. We try to create the kind of atmosphere we'd want to work in—an extended family. It sounds corny, but it's actually true. In the last 10 years, we haven't fired anybody. We've had a couple people move on; for example, one of our analytical people got into a Ph.D. program in Princeton, so in that case, it was hard to convince him to stay. I wanted to know if he could get me into it! But, that's been our operating style; frankly, I don't care when people get to work or when they leave, just as long as they get the job done with a reasonable amount of effort. Even when it comes to client demands, if they are unreasonable, we push for our employees. It's important to create an environment that's a great place to be because it's the employees that make everything work.

The fact is there are enough resources for everybody to prosper. That's how business and society can work; everyone can get a piece of the pie.

FREE: How about a philosophy when it comes to business, to making money?

DD: What makes us successful is that rather than driving the business towards the single goal of profit, which I think is a bad way to run a business, our focus is really on three stakeholder groups, and then profit. The first stakeholder group is our customers, the insurance clients we plug into. We are very serious about treating the business we do with them as if we were the senior execs in their company, running their marketing program. We don't do anything we wouldn't do for ourselves if we were the clients. We are often in a position of recommending that clients mail less when they want to mail more, and our compensation comes based on the volume we send out! But we understand that when we curb our short-term revenue, if and when it's in the best interest of our client, it will pay off in the long term. They notice it, they get it and we continue to maintain their business. The second stakeholder group is the employees, making sure we pay them well and create a positive work environment. Third is our suppliers, making sure we get good costs, but also making sure they make enough money so they continue to deliver quality service for us. We spend a lot of our own internal resources, and our supplier's as well, checking everything we do. We check two to three times to make sure things are right for our client before they are mailed, and I think that's fairly unique in our industry. I remember remarking years ago (or maybe it was Pete) that if you can do this without making mistakes, you'd stand out of the pack.

FREE: So speaking of exceptional service, how did you meet Ron Chakler?

DD: I had an insurance broker that was servicing our organization who I asked to do some investing for me. He said he didn't invest, but knew a guy that was just tremendous. He arranged for us to get together and we immediately liked each other. His view of the market and his investment philosophy is very much in sync with mine—conservative and diversified. I never got the feeling he was recommending I sell something because he wanted a commission. Like us, he's in it for the long haul and will advise his clients similarly.

FREE: What advice would you give someone looking to go into business for them self?

DD: It sounds obvious, but the one thing I would say is that while profit is important, it shouldn't be the single measure. I'd hesitate to run something strictly trying to maximize profit. It creates a bad effect. Anyone can squeeze employees and suppliers to make more money, but what are you doing? The fact is there are enough resources for everybody to prosper. That's how business and society can work; everyone can get a piece of the pie. I had a guy say to me years ago something I've always remembered, and that's "pigs get fat, hogs get slaughtered!" So, it's more complex than focusing on one number. In terms of building something, I think it's absolutely critical to have a vision in your mind of what you want, and to revisit that vision daily. Sit down and think about the organization you want to create, and believe you can do it and just continue to march—that's critical. If you do that, in my experience, a lot of the details will then work themselves out.

Q&A

Cathleen Burns

Interview by Melissa Grappone

Cathleen Burns thought she was going to be a physician when she grew up. But as it is in life, circumstances, timing and one person who told her no, changed all that. The young girl with dreams would never have imagined she could find personal fulfillment in financial services.

FREE: So tell us what got you started in financial services?

Cathleen Burns: I had a bad experience with my own personal account; this broker at a large wire house firm put me 100 percent into a high-yield bond fund. I didn't know a high-yield bond from a hole in the wall. Needless to say, I lost a lot of money. When I told my broker I wanted to go into CDs, because they were earning around 7 percent at the time, he said no, I couldn't do that. I decided then that I was going to go back to school to learn this stuff myself; I didn't want to be taken advantage of anymore. So I went back to school to get my MBA and it turned out that I really enjoyed finance and investments.

FREE: So you didn't go into production right away?

CB: That's right. I was working all the back-office jobs for various local broker/dealers. During that time I got all my licenses and completed all the coursework I needed for the CFP designation.

FREE: What's your practice like and how did you build it?

CB: It's advisory and transaction-based, with 95 percent or more of my clients being retired individuals who are all very nice; that's my main criteria. I went into production from 1999 to 2005 at Morgan Stanley because I felt the name had value and it would build instant credibility for me. When I went independent in 2005, I only invited those clients who I wanted to come. My book was built on seminars, trade shows and cold calling—I did everything. I'd book a restaurant and do seminars on women and investing, or estate planning. I'd do home and patio trades shows; anything that was around I'd go to. I'd also cold call retired people because they're generally nice. That generation still has manners.

FREE: What side of the business do you prefer—commissions or fee-based?

CB: I prefer fee-based over commissions, but some of my older clients have never heard of fee-based and so they prefer being charged commissions versus fees. They don't like change so they want to stick with what they know. The problem is they see a commission and they think it's only for that trade; then they compare it to an $8.95 trade at Schwab. They don't understand that it's for everything I do for them and that it's the only time I can get paid.

FREE: What's the argument that you make for fee-based business?

CB: I just say that the trend is leaning towards charging fees instead of commissions—that if you need to get in and out of things, there's no charge for doing that and you won't have to incur more commissions. The other thing I tell clients is that when I do fee-based business with them, I have a fiduciary responsibility to them as opposed to just being their broker, where I only have to be concerned about suitability requirements. But they don't understand the differences and so they tend to sway away from the fee-based option because it's unfamiliar to them. That's why I'm thinking of not giving them the option anymore—just going fee-based.

FREE: You mentioned fiduciary responsibility. Do you have any thoughts about the current regulatory environment—namely the fiduciary standard?

CB: Absolutely, I think everyone that holds themselves out as a financial advisor should be required to uphold a fiduciary standard. The consumer has no clue about the two different channels or the two different regulations. They expect a fiduciary standard; that's why they've hired a professional. We have enough bad press about our industry daily with all the Ponzi schemes and the like in this economy; I don't see how they cannot require a fiduciary standard across the board.

FREE: Who do you think should regulate this?

CB: It's hard to find any competence in the government or the states, for that matter [chuckles]. Everything is up in the air. The states are already overwhelmed. They just got handed all those RIAs with the new regulation that moved the limits of SEC registrations of RIAs from $25 million to $100 million. Then let's take a look at the estate tax. We don't even know what we're doing there. It's going to sunset at the end of this year. I mean, the "pull the plug jokes" are coming true. When they enacted this 10 years ago they knew this was going to happen and everyone said, oh Congress will do something before then. But it still doesn't look like anything is going to get done. I think it's going to be really ugly.

FREE: So is all of this regulatory upheaval impacting your practice?

CB: No, not hugely. I just tell my clients we have no choice but to plan for what the rules are now with the caveat that things can change. But it does cost the clients more time and money as they have to amend their documents every time they make a change in Congress.

FREE: Where do you think the market's going?

CB: I listened to Jeremy Siegel talk at the Pershing conference this past spring and he gave a very powerful presentation showing the regression line of the market. He showed the regression lines of where the market's been and then two standard deviations out from that, above and below. He said when the market is two standard deviations off of the mean, it's going to revert—basically that markets revert to the mean. It was a very interesting graph. And so at one point we were two standard deviations below the mean and it made for a very compelling argument that the markets would be heading up.

FREE: What about the economy, unemployment and what you see as the next financial bubble?

CB: The economy is not looking too good. While the market is a leading indicator, I think the government is too heavily involved in trying to regulate the market. As for unemployment coming down, well that is the big question of the day which I have no idea about. And as for bubbles, I suspect within the next one to two years it's going to be the bond market.

I think everyone that holds themselves out as a financial advisor should be required to uphold a fiduciary standard. The consumer has no clue about the two different channels or the two different regulations. They expect a fiduciary standard; that's why they've hired a professional.

FREE: Do you do a lot of bond business?

CB: I do. I'm staying with short-term individual bonds. I very rarely use a bond fund. I'm encouraging clients to get out of open-end bond funds, but occasionally I'll recommend a closed-end bond fund trading at a discount; it's the only place with decent yields right now.

FREE: Tell us about the business you had prior to coming into financial services.

CB: I got my undergraduate degree in botany. After college I worked at a local nursery for six months and, shortly thereafter, I started a plant leasing and maintenance business. I had a 3,000-square-foot greenhouse and went around putting plants in offices and restaurants and taking care of them

FREE: Did you like it?

CB: I did it for about eight years, but I couldn't find people to hire that were good with plants, so I couldn't grow; I had to do everything myself. Then I became interested in finance.

FREE: Why botany?

CB: When I was young I preferred the sciences. My dad was a physician. I wanted to study biology but it wasn't being offered at the University of Florida, so I had to pick either zoology or botany; I didn't want to cut up dead animals so I chose botany. It was as simple as that.

FREE: Did your dad want you to become a physician?

CB: Oh absolutely. I did consider medical school, but by that time the malpractice insurance was such a problem and the rates were hundreds of thousands of dollars; my dad said it wasn't worth going into. He got out early himself. He retired at 63.

FREE: How do you balance running your practice and your family?

CB: Well I'm very fortunate in that I have a stay-at-home spouse. I structure my day so that I have a lot of free time.

FREE: What do you like to do in your free time?

CB: I go camping, boating and kayaking with my spouse and son; or we just hang out. We enjoy being at home, too. `

FREE: What do you do to keep your sanity?

CB: I meditate and exercise daily. I'm also in a tennis league and play once a week. I've always been athletic and I'm one of those rare people who enjoy exercise.

FREE: Where do you see yourself in five or 10 years down the road?

CB: I'd like to get involved in a marine conservation organization that saves the sea turtles, reefs and sharks. But really, I just see myself on a boat in the Caribbean running my practice.

FREE: Sounds nice! Thanks for your time, Cathleen.

CB: Thank you!

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The views in this commentary do not necessarily represent those of APFS and are not intended as specific investment advice.

TOOLS OF THE TRADE

Nationwide® On Your Side

Investments Retirement Insurance

RetireSense

An Investment Draw-Down Strategy for Generating Inflation-Adjusted Income Throughout Retirement

WHO:	Nationwide Financial®
WHAT:	RetireSense®, an investment and draw-down strategy for generating inflation-adjusted income throughout retirement. It is based on a "bucketing" approach.
WHERE:	The tool to implement this strategy, the R-IncomeAnalyzerSM, is available on the Nationwide® Sales and Service Center Web site. Click on R-IncomeAnalyzerSM, located under the resource link on the left side of the page.
WHY:	It helps your clients see exactly where annuities and mutual funds fit in their overall roadmap for retirement income.
WHEN:	Available now.
WHEN:	Available now.
COST:	No charge!

GETTING STARTED:

Use the two-page RetireSense client fact finder (NFM-4213AO.3) to organize the necessary client information. Enter the information into the R-IncomeAnalyzer. If you have questions along the way, call the Nationwide Income Planning Desk.

USING THE PROGRAM:

» Enter client information regarding their income sources and assets to be used to generate income.

» Enter the length of retirement, risk concerns, essential income needs and discretionary income needs.

» Solving for essential income needs separately is an important feature that helps manage the risk associated with longevity. The tool partitions the remaining assets into separate pools, or Life Segments™, with specific product types and asset allocations for each one.

» You customize the results for your client by recommending the investment for each Life Segment.

For example, a Nationwide variable annuity with The Nationwide Lifetime Income Rider® (for an additional cost) is an option for Life Segment 3, allowing the income benefit to grow at 10 percent simple interest for 10 years before turning it on to generate income.

Please note that RetireSense was not designed to line up exclusively with Nationwide's products. While Nationwide's products can match up with RetireSense, other companies' products may be appropriate with this strategy as well.

FOR MORE INFORMATION, CONTACT:

Kevin McGarry, CIMA, CRPC
Nationwide Financial
mcgarrk@nationwide.com
1-860-918-8248

NFM-8599AO (08/10)

AXA EQUITABLE

Advice for the Reluctantly Retired

by Stephanie Nesi, AVP, AXA Advanced Markets

Close your eyes and imagine this scenario—it's Friday at 5 p.m. and you're leaving work for the weekend. This is the same position you've held for the last 25 years and it's the only place you've ever worked. Sure, there have been ups and downs, but overall you're satisfied with the work, your colleagues and the company. Things are good and you're in the home stretch. You plan on working another five or 10 years, and then you look forward to enjoying your retirement. You know you have more planning and saving to do, but there is still time to catch up. Unfortunately, your boss stops you on the way out and with a big announcement—the shop is closing and now you have 30 days notice and a severance package. Just like that, the future has arrived and it's banging, rather than knocking, on your door. What do you do?

Now open your eyes and sigh with relief; this scenario is a reality for many people. Companies that were once the integral pieces supporting the backbone of the American economy are being consolidated, sold or closing their doors. For investors, things are definitely challenging. For the employees at these blue chip companies, the situation is terrifying. While some are concerned about their retirement savings, others are worried about paying their mortgage and putting food on the table. Unfortunately, thousands of unprepared people across a broad spectrum of industries are being offered buy-out packages and severance arrangements. If there was ever a time for people to be getting sound financial advice, the time is now. As financial advisors we can't change the world, but we can help shape the decisions being made during this difficult time. When things seem bleak, there are a number of strategies you can offer your reluctantly retired client.

Your clients are going to have a variety of concerns about the solvency of Social Security, rising health care costs and the stability of pensions. While it's important that advisors take a conservative view of these issues, we don't always have all the answers. A large part of the clients' success is going to depend on taking advantage of what we do know, and this includes capitalizing on buy-out or severance packages. For many clients it is more cash than they have ever received at one time. Their first inclination may be to indulge in a big-ticket item, such as a boat or new car; that could be a costly mistake. As advisors, we need to remind clients that these funds are designed to provide income for retirement or until they secure a new job. One option is using a portion of the funds to purchase a variable annuity. Having an asset, such as a variable annuity, that may provide guaranteed stable income could help alleviate a number of concerns. Many annuities offer optional withdrawal features that calculate the income off of a benefit base that "rolls up" each year at a certain percentage, regardless of market performance. This means your clients can get the income from the guaranteed roll up or from market performance, whichever is greater. Clients have the ability to keep their long-term investment strategy intact while providing protection from downside risk. An additional advantage of the variable annuity is that the income generated may help recreate the feeling of getting a paycheck each month. This could certainly provide a smoother transition into retirement.

For most clients the majority of their assets are going to be held in their qualified retirement accounts. This creates special considerations for clients younger than age 59 ½. If a client chooses to access their retirement money prior to 59 ½, there is a 10 percent penalty in addition to normal income tax rates. Fortunately, there is an exception to the penalty in the form of Substantial Equal Periodic Payments (SEPPs). The IRS provides three methods for calculating SEPPs:

1. Required Minimum Distribution (RMD),
2. Annuitization, or
3. Amortization.

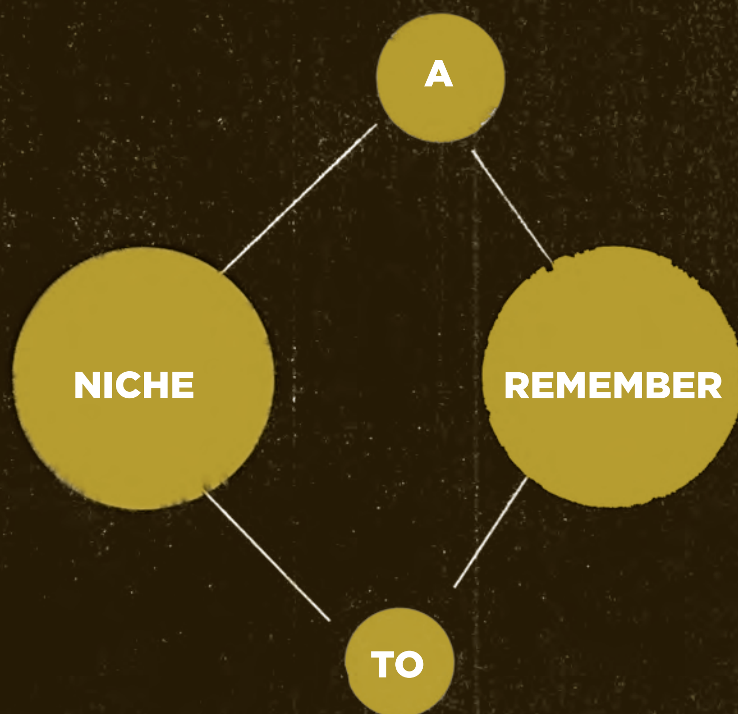
The RMD method will generate the smallest annual payout and the amount is based on the prior year-end balance. The annual payout will fluctuate based on market performance of the retirement account. The annuitization and amortization methods provide for the payment to be calculated at the start of the program and will remain fixed each year. Once a SEPP election is made, there must be annual payments and the payouts need to continue for five years or until the client turns 59 ½, whichever is longer.

It is important to caution clients that modifications to the SEPP program are not allowed. If a client fails to take an annual payment or takes more money than allowed, the 10 percent penalty will be retroactively applied to all previous SEPP payments. The IRS does, however, allow a one-time modification for an individual who had previously elected the annuitization or amortization method. The person can make a one-time change to the RMD method and no penalty will apply. This can be particularly helpful for clients whose retirement account balance has been dramatically affected by the recent market downturn. Another relevant planning technique is the exception to the 10 percent penalty for qualified plans when the client is older than age 55 and is separated from service. The exception applies to certain qualified plans, such as a 401(k), but not IRAs. Proper planning for the client's retirement accounts is going to be essential to their long-term success.

Financial concerns may be what initially prompt clients to contact their advisor, but other non-financial related issues will quickly surface. There may be feelings of grief, restlessness and frustration. In order to combat the blues, advisors should encourage clients to not only have a financial plan, but a plan for their emotional well being as well. A Web site like MyRetirementShop.com can help. It offers a variety of information on topics like travel, volunteering, and health and fitness that allows your clients to re-engage, reinvent and reinvigorate themselves. There is even a concierge service available that provides ticket services and golf reservations. Encouraging clients to fully embrace their new circumstances will not only benefit them, but can work to deepen your relationship and secure your role as the lead advisor.

An advisor never knows when he or she is going to encounter a reluctantly retired client, so being prepared is important. Providing advice on ways to create consistent income, maximize retirement accounts and plan for non-financial concerns will be imperative. Although retirement or a new career wasn't planned or expected for these clients, it is not the end of the world. In fact, it may be just the beginning.

CURIAN



If the word "millionaire" conjures up a heady world of conspicuous consumption where a Rolex, Rolls Royce and vacation home in the Hamptons are de rigueur, think again. "Millionaire" has been redefined by a new class of wealthy Americans, dubbed middle-class millionaires, who are exerting increasing influence over our economy. Who are these so-called middle-class millionaires? Where can you find them? And how can you best serve them?

In their insightful new book, "The Middle-Class Millionaire: The Rise of the New Rich and How They Are Changing America," co-authors Lewis Schiff and Russ Alan Prince describe an emerging demographic that is as affluent as it is influential. Schiff and Prince studied almost 4,000 households to understand their attitudes, values and purchasing patterns. They found that middle-class millionaires— those with a net worth of between $1 million and $10 million that they have earned rather than inherited—make up about 8 percent of the U.S. population, or a total of 8.4 million households.

Such households are growing at a rate of about 15 percent every three years. All told, the next decade could see between 15 and 20 million middle-class millionaire households in the U.S.[1]

YOUR NEXT-DOOR NEIGHBOR

Despite their affluence, middle-class millionaires tend not to flaunt their wealth. They are everywhere: your son's baseball coach, your daughter's Girl Scout troop leader, your next-door neighbor. They likely graduated from a state university, and many are entrepreneurs with humble beginnings as small-business owners. Like their less-affluent middle-class peers, their values are centered around family, education and making sacrifices for the next generation. But the similarities end there. Middle-class millionaires hold some starkly different attitudes about work and wealth that not only set them apart, but also have helped them achieve their middle-class millionaire status.

According to Schiff and Prince's research, compared to other members of the middle class, middle-class millionaires:

- Work longer hours every week (an average of 70 hours versus 40 hours) and are more apt to think that anyone can attain wealth through hard work
- Make greater efforts at networking and believe that knowing many people is the key to financial success
- Choose a career based on potential financial rewards rather than personal satisfaction
- Describe their approach to negotiating as "doing whatever you need to do to win;"
- Take more risks and are more persistent in their career efforts despite setbacks or failures.

"MIDDLE-CLASS MILLIONAIRES"

Americans who espouse typical middle-class values but have assets of more than $1 million—are a rapidly growing segment of the population.

TRENDSETTERS

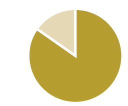
Most importantly, say Schiff and Prince, middle-class millionaires are influencing, advocating and reshaping the social, cultural and commercial landscape of our world. How are they able to exert this kind of power?

They talk. When middle-class millionaires have a positive buying experience—whether it's a new product, apparel line or investment—they share that experience with their family, friends and co-workers. Schiff and Prince's survey found that middle-class millionaires are 50 percent more likely to say that they "tell lots of other people about products or services they like" than other middle-class respondents. They also reported "being asked for advice on what to buy" five times more often. These trendsetters typically are early adopters, and their recommendations carry considerable weight with the rest of the middle class. Schiff and Prince call this phenomenon the "influence of affluence."

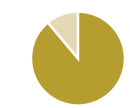
UNDERSERVED NICHE

Although they consider themselves to be influential in their communities, middle-class millionaires are "low-key investors who have accumulated their wealth gradually and without fanfare," according to Prince and brokerage executive Hannah Shaw Grove in their article "Wealth Advisor: The Search for Middle-Class Millionaires."[2] They tend to be somewhat reclusive and form tight social circles. For these reasons, they can be both hard to find and underserved by financial advisors, say Prince and Grove.

What keeps middle-class millionaire investors up at night? A study by Prince of more than 1,400 middle-class millionaires revealed that:[3]



A majority of middle-class millionaires (84.7 percent) are most interested in reducing their tax burden.



Nearly nine out of 10 middle-class millionaires (88.6 percent) are very concerned about losing their wealth.

Additionally, middle-class millionaires generally don't respond to cold calls, surveys or phone solicitations. But they are very receptive to referrals from others in their sphere of influence. "Once you impress one millionaire with your service and savvy," says Dr. Kerry Johnson, best-selling author and the owner of a personal-coaching firm, "the referrals should start flowing."[4]

Address the concerns of middle-class millionaires and you could enjoy a very profitable relationship serving the "ideal" client whose financial situation is not overly complex (as those of ultra-rich clients can be)—and who is loyal and happy to spread the word about his or her positive experiences working with you.

THE MANAGED ACCOUNT SOLUTION

When it comes to financial products and services, Prince's study of middle-class millionaires found that they are "less interested in products they associated with their pre-millionaire days…than in products that targeted the special needs of a more affluent clientele…they are very interested in products suited to their new financial status such as managed accounts…."[5]

Indeed, a managed account solution could be a good fit for middle-class millionaire clients. Managed accounts provide portfolio customization, institutional money management and a high level of account transparency. And for those looking to lower their tax bills, the tax harvesting features of managed accounts may be particularly attractive.

[1] *Schiff, Lewis and Russ Alan Prince, "Millionaires, But Middle Class." Adweek.com, March 3, 2008.*

[2] *Grove, Hannah Shaw and Russ Alan Prince, "Wealth Advisor: The Search for Middle Class Millionaires." Registered Rep., January 1, 2002.*

[3] *Taylor, Debra, CPA/PFS, Esq., "Why Advisors Are Failing Middle-Class Millionaires." Horsesmouth, May 19, 2008.*

[4] *Johnson, Kerry L., MBA, Ph.D., "Affluent Prospects: Insights and Ideas to Consider." Horsesmouth, August 1, 2006.*

[5] *Grove, Hannah Shaw and Russ Alan Prince, "Wealth Advisor: The Search for Middle Class Millionaires." Registered Rep., January 1, 2002.*

The Roman Statue Janus Had Two Sets of Eyes

by Lon T. Dolber, CEO

I PRESENT YOU with the third-quarter 2010 performance results for American Portfolios. 2009 third-quarter revenues and fees of $22,669,035 increased significantly by 50 percent from second-quarter gross revenues and fees received in 2009 of $15,112,787. Assets under management for the firm had a respectable increase of 29 percent from the second quarter. A historical analysis of the quarterly performance results shows that 2010 third-quarter revenue figures were $12.3 million more than the total gross revenues received in the firm's first full year in business ($10.3 million in 2002) and approximately $6.2 million more in gross revenues received for all of 2004. These positive performance results can be attributed to a slow but increasing return of confidence in the market and additional incoming business from fully up-to-speed colleagues who joined the firm in the first quarter of 2010.

The Roman statue Janus had two sets of eyes—one pair focusing on what lay behind, and the other on what lay ahead. Today—as I write this—it is Sept. 10, 2010, exactly nine years to the day that 180 licenses were transferred from Nathan & Lewis Securities to the fledgling upstart American Portfolios. On that day, there was an atmosphere of anticipation, some apprehension and a huge sense of adventure as the firm's eight employees tended to the numerous tasks that needed to be completed before the company's official first day of operating as a financial services firm, Sept. 11, 2001.

I can remember sitting in my office on that Monday thinking about the last 22 years: my start at First Investors in 1979, going independent in 1991 and a meeting in February 2001 with Jay Lewis, president of Nathan & Lewis, to discuss the date that we would transition to our new broker/dealer. I was ending one journey and beginning another, living the dream of building a broker/dealer that was substantially owned by its employees and the professionals I felt privileged to serve.

I was up most of that night, tending to a handful of last minute details. It was because of that that I was late leaving my house for the office the next morning. I remember the drive to work, though. There was not a lot of traffic, and a cool, clear blue sky marked a beautiful day for our first official day in business.

That day, and the days following the collapse of the towers, I was certain there was no way our financial system, let alone American Portfolios, could survive. But as the smoke started to clear, the heads of firms most affected by the tragedy—firms like Cantor Fitzgerald, which had seen the loss of nearly all their dedicated employees—were claiming they would rebuild and find a way to make it. And indeed, they have. We all have.

While it has not been an easy road, this building and rebuilding has been a collaborative effort that required everyone to put their shoulder to the wheel and push. That was evidenced by the financial service professionals that met day after day with families to reassure them our financial system would survive and the employees that stayed the course, working long hours to offer whatever support they could to the professionals in the field. The financial services industry has certainly seen its share of difficulty during the last nine years: the 9/11 attacks, the largest Ponzi scheme in history, the near collapse of the banking system, the huge government bailouts and what is to be remembered as the Great Recession.

While it has not been an easy road, this building and rebuilding has been a collaborative effort that required everyone to put their shoulder to the wheel and push.

The last nine years have seen a whirlwind of ups and downs, disappointments, successes, heartbreaking tragedy and heroic efforts. For all the adversity, however, there is a sense that we can move ahead, no matter what we face, whether it be business or personal. This attribute is the very essence of what it means to be an American, and above all it is what I love about the past and present history of our country.

We have all found a way to persevere and overcome these difficulties. It is now time to look forward to our futures together and, perhaps, remember and reconfirm why we all came together in the first place—to maintain the freedom to build our own businesses and offer our clients the best financial solutions without the pressure to sell manufactured products of corporate parents.

However, the road ahead is not going to be an easy one. The independent model is under tremendous strain due to a low interest rate environment, increased regulatory pressure and the possibility of financial reforms that may not be in the best interests of our industry, let alone the investing public. I am confident, though, that as long as we head down the path together, we will get to where we are going. After all, that is the American way.

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2010 QUARTERLY REVIEW
July 1 – Sept. 30, 2010

The third-quarter 2010 review for American Portfolios is shown on pages 39 through 43. This review has also been posted to the American Portfolios Broker Web site in Rep Services.

CORPORATE OVERVIEW:
American Portfolios has 79 employees (70 of whom are full-time, five who are part-time and four who are consultants). All support 738 registered representatives—which includes 66 registered assistants and 28 registered employees—working from 107 offices of supervisory jurisdiction and/or 345 branch office locations as of Sept. 30, 2010.

FINANCIAL OVERVIEW:
Third-quarter gross commissions and fees of $23 million were higher than the third quarter of 2009, a 50 percent increase of $7.6 million to $15.1 million. Gross revenues for the firm have increased more than 13 times since the fourth quarter of 2001 ($1.6 million in 4Q 2001 to $22.6 million in 3Q 2010). In an across-the-board analysis of products and services offered through American Portfolios, alternative investments, variable annuities and fixed annuities had the highest increases of 165 percent, 78 percent and 74 percent, respectively, from the third quarter in 2009 (Table 1). Assets under management increased by 29 percent from $9.8 billion in the third quarter of 2009 to $12.6 billion in the third quarter of 2010 (Table 2).

Fig. 1

Gross Commission & Fee Revenue *(by quarter)*

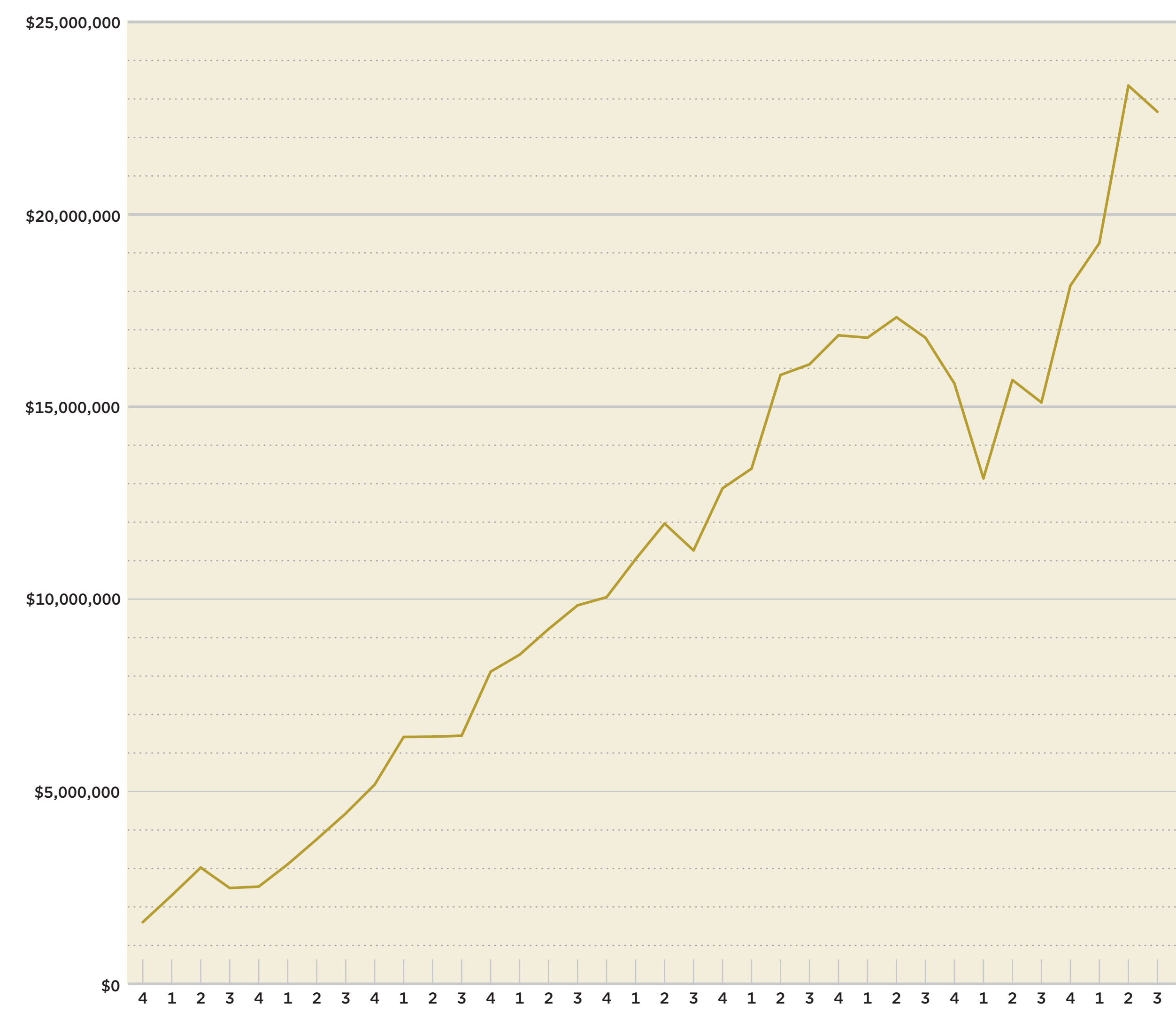


Table 1

Gross Commission & Fee Overview

Quarter	Mutual Funds	12B-1 Fees	Variable Annuities	Fixed Annuities	Life Insurance	Managed Accounts	General Securities	Alternative Investments
2001 4Q	$377,677	$337,396	$327,855	$483	$16,140	$0	$463,096	N/A
2002 1Q	$550,413	$389,682	$697,756	$28,245	$24,979	$32,406	$502,945	N/A
2002 2Q	$697,511	$500,594	$894,388	$14,003	$16,144	$89,201	$681,635	N/A
2002 3Q	$446,671	$480,835	$608,129	$90,130	$54,978	$66,546	$602,265	$10,500
2002 4Q	$504,510	$473,900	$514,489	$78,876	$41,808	$66,739	$667,726	$10,500
2003 1Q	$738,065	$465,601	$944,138	$111,164	$51,006	$90,852	$414,066	$42,740
2003 2Q	$890,264	$590,360	$902,892	$48,075	$186,158	$99,223	$747,131	$48,788
2003 3Q	$932,171	$745,759	$1,171,706	$107,766	$88,621	$126,321	857,482	$44,554
2003 4Q	$1,052,379	$891,779	$1,469,274	$185,860	$88,509	$250,466	$850,436	$73,784
2004 1Q	$1,392,634	$1,114,582	$1,961,656	$65,424	$75,229	$269,938	$1,090,539	$28,549
2004 2Q	$1,219,564	$1,207,981	$2,021,864	$38,002	$157,260	$433,380	$905,050	$118,893
2004 3Q	$1,219,144	$1,296,661	$1,833,477	$36,692	$163,314	$521,670	$823,100	$147,785
2004 4Q	$1,481,154	$1,486,261	$2,414,798	$29,594	$215,654	$583,219	$1,474,892	$43,848
2005 1Q	$1,824,456	$1,576,125	$2,453,958	$81,319	$144,146	$704,188	$1,298,549	$39,431
2005 2Q	$1,764,832	$1,649,075	$2,763,990	$90,674	$243,589	$790,887	$1,310,025	$87,983
2005 3Q	$1,594,608	$1,862,325	$2,791,314	$35,528	$235,170	$910,537	$1,658,235	$56,358
2005 4Q	$1,822,784	$2,025,972	$2,719,060	$102,760	$201,046	$1,125,763	$1,401,672	$25,772
2006 1Q	$2,168,221	$2,264,472	$2,946,526	$89,373	$162,797	$1,233,534	$1,743,557	$12,403
2006 2Q	$2,235,356	$2,547,285	$3,277,267	$84,973	$348,799	$1,463,952	$1,592,118	$91,368
2006 3Q	$1,586,985	$2,688,432	$2,902,267	$47,216	$291,917	$1,585,138	$1,392,330	$107,219
2006 4Q	$1,805,784	$2,762,047	$3,687,567	$64,962	$440,852	$1,764,368	$1,566,537	$265,725
2007 1Q	$2,228,559	$2,924,400	$3,713,477	$21,970	$322,265	$1,862,473	$1,647,707	$183,430
2007 2Q	$2,548,211	$3,110,878	$4,225,425	$153,306	$394,174	$2,263,331	$1,775,617	$520,311
2007 3Q	$2,237,248	$3,479,640	$4,517,128	$120,463	$412,929	$2,560,301	$1,932,932	$280,375
2007 4Q	$2,241,822	$3,458,638	$4,999,588	$170,699	$373,518	$2,826,110	$1,744,203	$437,141
2008 1Q	$2,315,571	$3,471,954	$4,360,367	$145,745	$736,771	$3,040,161	$1,814,538	$272,025
2008 2Q	$2,241,371	$3,457,992	$4,981,427	$169,016	$681,404	$3,103,679	$1,511,312	$445,075
2008 3Q	$1,855,832	$3,540,274	$4,641,943	$209,199	$906,442	$3,207,233	$1,396,466	$400,785
2008 4Q	$1,206,333	$3,060,978	$4,823,976	$483,905	$889,985	$2,828,270	$1,418,478	$223,561
2009 1Q	$1,301,853	$2,538,557	$3,405,101	$447,609	$665,130	$2,763,311	$1,158,586	$116,793
2009 2Q	$1,701,361	$2,635,830	$4,364,957	$364,158	$1,515,700	$2,725,085	$1,368,452	$366,967
2009 3Q	$1,832,403	$2,993,591	$4,326,214	$158,080	$649,832	$2,971,559	$1,352,518	$165,193
2009 4Q	$2,215,760	$3,421,110	$5,837,766	$189,435	$491,237	$3,537,793	$1,527,808	$128,542
2010 1Q	$2,147,290	$3,629,271	$5,950,199	$151,918	$625,206	$4,095,454	$1,719,005	$220,352
2010 2Q	$2,451,819	$3,874,440	$7,521,884	$351,567	$610,260	$5,246,427	$2,320,126	$271,169
2010 3Q	$2,168,987	$3,975,603	$7,695,978	$274,850	$571,790	$5,043,967	$1,646,661	$438,681
Change from Q3 2009	+18 %	+34%	+78%	+74%	-12%	+70%	+ 22%	+165%

Top 5

Top Five Fund Families by Commissions for the Third Quarter of 2010

1. $ 1,458,819 American Funds
2. $ 1,349,949 OppenheimerFunds
3. $ 690,421 Franklin-Templeton Funds
4. $ 258,074 Fidelity Funds
5. $ 220,791 Eaton Vance Funds

Top Five Variable Annuity Vendors by Commissions for the Third Quarter of 2010

1. $ 1,481,010 Prudential
2. $ 1,306,914 Jackson National
3. $ 972,136 Nationwide
4. $ 561,878 ING
5. $ 558,002 John Hancock

Top Five Vendors' Assets Under Management as of Sept. 30, 2010

1. $ 1,541,327,311 American Funds
2. $ 1,096,795,728 OppenheimerFunds
3. $ 755,196,003 Franklin Templeton Funds
4. $ 425,179,115 Nationwide VA
5. $ 378,134,744 Prudential VA

Table 2

Assets with American Portfolios

Quarter Ending	Clearing Firm Assets	Assets Held Directly	Total Assets
09/11/2001	$407,939,561	$824,718,413	$1,232,657,974
2003 2Q	$922,936,847	$1,212,135,975	$2,135,035,662
2003 3Q	$1,039,499,742	$1,377,732,480	$2,417,232,222
2003 4Q	$1,464,631,538	$1,701,665,682	$3,166,297,221
2004 1Q	$1,379,050,247	$1,915,885,560	$3,294,935,807
2004 2Q	$1,529,313,892	$2,005,769,082	$3,535,082,974
2004 3Q	$1,621,558,602	$2,266,246,669	$3,887,805,271
2004 4Q	$1,793,608,828	$2,525,624,801	$4,319,233,629
2005 1Q	$2,072,980,621	$2,599,152,578	$4,672,133,199
2005 2Q	$2,087,549,824	$2,714,366,636	$4,801,916,500
2005 3Q	$2,283,338,949	$3,001,917,860	$5,285,256,809
2005 4Q	$2,423,074,182	$3,201,420,077	$5,624,494,259
2006 1Q	$2,707,615,433	$3,484,538,873	$6,192,154,306
2006 2Q	$3,119,371,820	$3,471,519,408	$6,590,891,228
2006 3Q	$3,274,773,125	$3,627,859,456	$6,902,632,452
2006 4Q	$3,477,988,173	$3,809,967,199	$7,287,955,372
2007 1Q	$3,686,918,635	$4,128,268,176	$7,815,186,811
2007 2Q	$3,873,325,137	$4,475,309,135	$8,348,634,272
2007 3Q	$4,200,417,192	$4,836,172,531	$9,036,589,723
2007 4Q	$4,428,919,887	$5,080,882,861	$9,509,802,748
2008 1Q	$4,450,873,800	$4,673,183,354	$9,124,057,154
2008 2Q	$4,506,944,841	$4,753,584,991	$9,260,529,832
2008 3Q	$4,486,928,475	$4,811,026,955	$9,297,955,430
2008 4Q	$3,650,509,827	$3,806,557,881	$7,457,067,708
2009 1Q	$3,709,229,426	$3,620,473,004	$7,329,702,430
2009 2Q	$4,041,940,609	$4,134,002,438	$8,175,943,047
2009 3Q	$4,664,682,071	$5,134,053,195	$9,798,735,266
2009 4Q	$5,131,640,776	$5,357,951,011	$10,489,591,787
2010 1Q	$5,805,897,177	$5,832,899,921	$11,638,797,098
2010 2Q	$5,826,606,566	$5,651,387,658	$11,477,994,224
2010 3Q	$6,360,580,263	$6,233,967,878	$12,594,548,142
+/- over 2009 3Q	+36%	+21%	+29%

Representative Overview

Sept. 10, 2001 – Sept. 30, 2010

Between Sept. 10, 2001, and June 30, 2010, 970 new representatives have joined the firm while 456 representatives have been encouraged to leave. During the same period, assets under management have increased by $11.4 billion (Q4 2001 1,232,657,974 – Q1 2010 $12,594,548,142).

Table 3

Third-Quarter 2010 New Colleagues

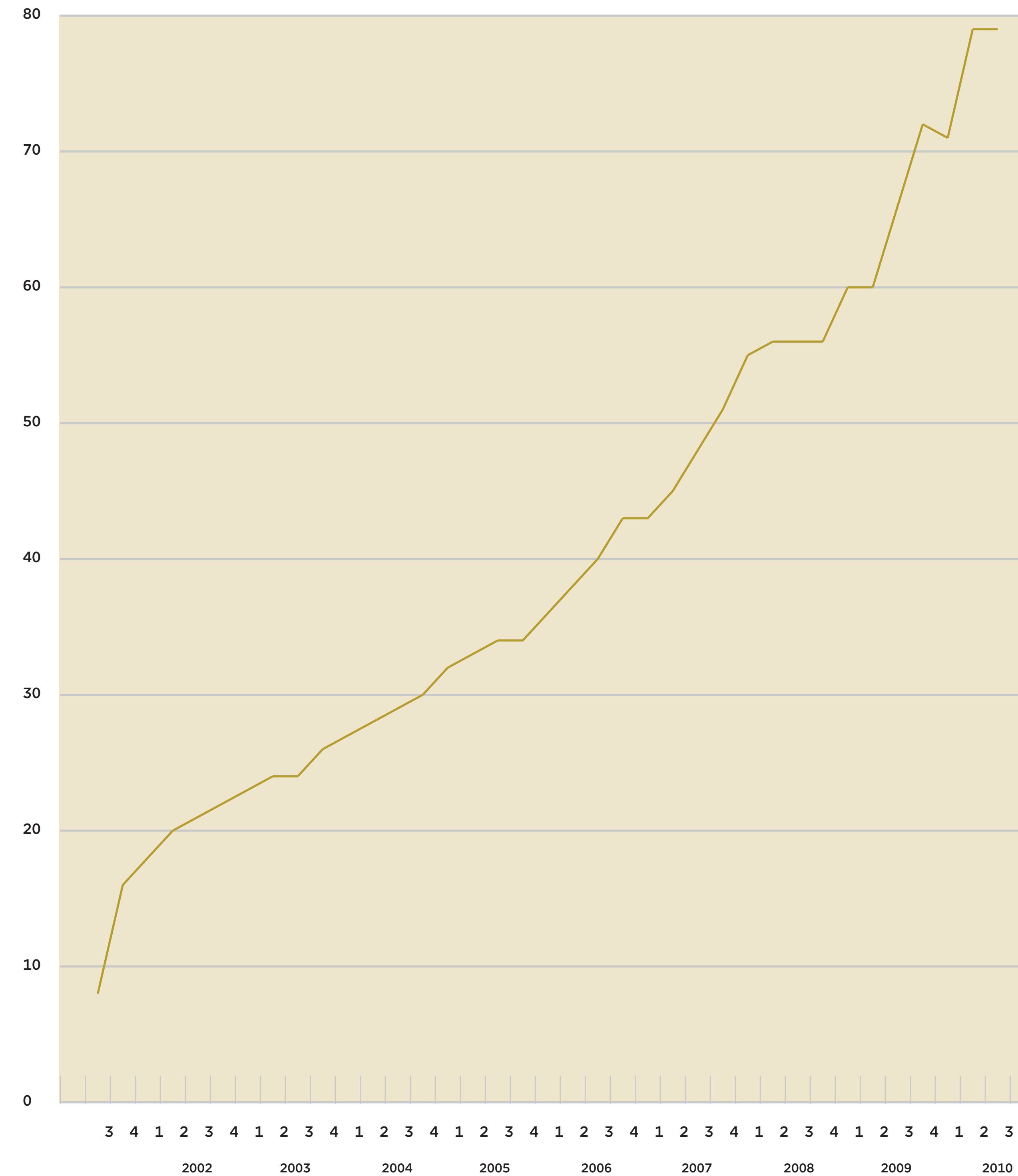
First Name	Last Name	City	State	Supervising Principal	Start Date	Status
Barry	Yankelevitz	Fort Lauderdale	FL	Richard Gerepka	7/1/2010	Account Executive
William	Bates	Saratoga Springs	NY	David Bangert	7/1/2010	Account Executive
Michael	Serricchio	Farmington	CT	Timothy O'Grady	7/7/2010	Account Executive
Dennis	Schug	Melville	NY	Edward Levine	7/7/2010	Account Executive
Colette	Frey-Bitzas	Holbrook	NY	Gus Catanzaro	7/20/2010	Account Executive
Michael	Hart	Jensen Beach	FL	John Wiswell	7/20/2010	Account Executive
Jeffrey	Kahn	Holbrook	NY	Tom Wirtshafter	7/22/2010	Principal
Joseph	Fischetti	Kensington	MD	Beverly Fischetti	7/27/2010	Account Executive
Todd	Slaper	Westbury	NY	Gus Catanzaro	7/28/2010	Account Executive
Jennifer	Ziemacki	Holbrook	NY	Lon Dolber	7/29/2010	Registered Staff
Peter	Brainard	Marlton	NJ	Timothy O'Grady	7/29/2010	Account Executive
Charles	Cordle	Chattanooga	TN	Richard Cox	8/2/2010	Registered Assistant
Richard	Cox	Chattanooga	TN	Timothy O'Grady	8/2/2010	Principal
Denise	Otten	Parsippany	NJ	Timothy O'Grady	8/6/2010	Account Executive
Daniel	Matheson	St. George	UT	Elizabeth Munday	8/11/2010	Account Executive
Victor	Howard	Northport	NY	Daniel Finnegan	8/18/2010	Account Executive
Aaron	Szager	Kensington	MD	Beverly Fischetti	9/3/2010	Registered Assistant
Patrick	Mason	Bloomfield Hills	MI	Willam Brown	9/7/2010	Account Executive
Maria	Zarb	Holbrook	NY	Lon Dolber	9/14/2010	Registered Staff
Steven	Steelandt	Sparta	MI	Donald Carlson	9/14/2010	Account Executive

Recruiting and Marketing Overview

The firm continues to attract new colleagues. Networking opportunities and calls from prospective candidates actively take place in the new business development area. As of Sept. 30, 2010, the broker/dealer had 738 registered representatives, which included 66 registered assistants and 28 registered employees working from 107 Offices of Supervisory Jurisdiction, as well as 338 branch office locations. A total of 20 new associates have joined the firm in the third quarter of 2010. As of Sept. 30, 2010, there were 644 producing registered representatives at the firm.

Fig. 2

Employee Growth *(by quarter)*



FOCUS AND BUSINESS PARTNERS

American Portfolios would like to extend a special thanks to its focus and business partners for their service and support throughout the year.