Pinnacle
ADVISORY GROUP, INC.
Private Wealth Management

April 2011

Market and Portfolio Commentary

April was another positive month for financial markets as corporate earnings continued to surpass expectations, job gains picked up, and ultra-low interest rates continued to compel investors to move further out on the risk spectrum in order to try and generate attractive returns.

One of the bright spots during the month was the very favorable first quarter corporate earnings results that were reported. According to data from Bloomberg, with more than 80% of S&P 500 companies having reported, earnings are up by nearly 21% from the first quarter of 2010, and revenue growth is ahead by approximately 10%. More importantly, there were plenty of positive surprises (actual results exceeded analyst forecasts) again, signaling that corporations continue to execute very well in the current environment. In addition, company guidance for future quarters has generally been upbeat as well. However, one aspect to earnings that some consider suspect is the quality of the numbers in the financial sector. There is a notable dichotomy among large financials where earnings are higher, but sales are down substantially, leading some investors to believe that accounting gimmickry is masking poor underlying fundamentals. But overall, strong earnings have supported stocks during this cycle and are an important barometer of a healthy bull market. There was a lot of anxiety as earnings reporting season began in April about whether historically high profit margins could withstand higher commodity pressures, and the evidence suggests that corporations passed the test rather easily.

Table 2

Quarterly Growth By Sector

	Q1 surprise (%)	Q2 consensus growth (%)	Q3 consensus growth (%)	Q4 consensus growth (%)
Materials	18.1	59.1	39.7	26.2
Energy	15.1	36.2	53.7	30.4
Industrials	9.6	10.6	17.7	14.2
Health care	7.6	4.1	4.8	6.8
Information technology	7.2	13.1	9.5	4.6
S&P 500	6.8	17.1	17.2	16.3
Consumer discretionary	4.8	11.7	19.3	15.2
Financials	3.8	26.8	14.6	37.5
Telecom services	0.9	(0.0)	16.4	18.7
Consumer staples	0.6	10.5	11.7	9.5
Utilities	0.0	1.3	(1.5)	2.8

Source: Capital IQ, Standard & Poors

Another important development during the month came in the form of a notable shift in sector leadership that took place. Since the stock market bottomed in March 2009, the leading sectors have been cyclical in nature, which means that they typically outperform during an accelerating economic environment. However, April was an unusual month where the broad market had a healthy gain, but the strongest performance came from sectors that are typically perceived to be more defensive. Health care and consumer staples, two sectors known for their defensive qualities, handily outperformed the S&P 500 for the month. While not infallible, sector leadership is one way investors can gauge the market's assessment of risk appetites and perceived future growth prospects. Some in the analyst community are now wondering if this shift to defensive leadership is foretelling a transition to slower growth in the economy. This can't be ruled out given the current backdrop and the fact that markets are anticipatory and attempt to discount the future. Indeed, plenty of worries abound including the end of the Fed's QE2 program in June, painfully high energy prices, monetary tightening outside of the U.S., and a recent ebbing in economic data.

While a material downshift in growth would be poisonous for risk assets, a moderate adjustment could also be just what the doctor ordered to extend the life of the bull market.

A downward adjustment to growth expectations will likely increase volatility in the short-term, but there are a few key benefits that may ultimately propel markets higher. Slower growth could curb soaring commodity prices and help ease rising profit margin pressures. That in turn could reduce inflation fears and give the Federal Reserve room to keep short-term interest rates near 0% well into next year. A material slowing may also give the Fed an excuse to consider a third Quantitative Easing program, though that doesn't appear to be a high probability at this time. Of course, any slowdown in the economy creates extra risks, and it's a fine line between modest growth which is supportive for asset markets, and a deeper slowdown which could be much more malignant to the bull market that investors have been enjoying for more than two years. Therefore, we'll have to stay on our toes in assessing incoming economic data over coming weeks and months.

For now, we continue to believe that the cyclical bull market remains intact. While pockets of volatility should be anticipated as the cycle progresses, we think that additional gains still lie ahead for the broad stock market. Of course, risks remain at elevated levels, so we also feel that no more than roughly benchmark volatility is appropriate at this time. As always, we will continue to weigh incoming evidence, and make adjustments to portfolios as necessary.

Pinnacle Portfolio Performance for April

Pinnacle portfolios achieved gains in April as stocks climbed to new cyclical highs. Defensive U.S. equity securities were among the top performers as a notable leadership shift occurred. International equity holdings outperformed as the dollar fell, which also lifted gold positions. Fixed income holdings were mostly positive, although high quality credit outperformed lower quality credit during the month.

The table below highlights the best and worst performing securities during the month:

Top Five Performers – April 2011

Position	Weight	Return
Gold SPDR	4%	+8.9%
iShares Pharmaceuticals ETF	3%	+8.5%
iShares Medical Devices ETF	3%	+6.8%
Consumer Staples SPDR	8%	+5.4%
iShares Health Care Providers ETF	2%	+5.3%

Bottom Five Performers – April 2011

Position	Weight	Return
Merger Fund	5%	+0.6%
JP Morgan Strategic Income Opportunities Fund	4%	+0.5%
TFS Market Neutral Fund	2%	+0.4%
KBW Capital Markets SPDR	2%	-0.7%
S&P Oil & Gas Exploration & Production SPDR	2%	-1.1%

Please note that the returns and weightings used for this illustration are based on the Dynamic Moderate Growth portfolio at the end of the period. The individual security returns for other strategies may vary due to trade execution or security selection differences. Securities may have been bought and sold during the quarter; therefore, client returns (which are shown here) may not reflect a security's actual quarterly return. Holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. Past performance does not guarantee future results.

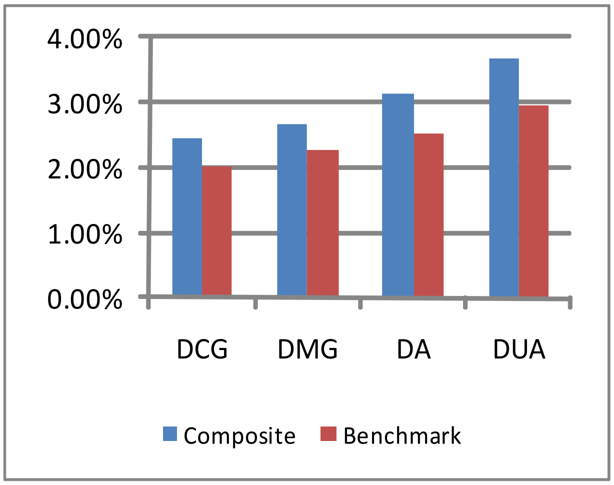
Portfolio Transactions

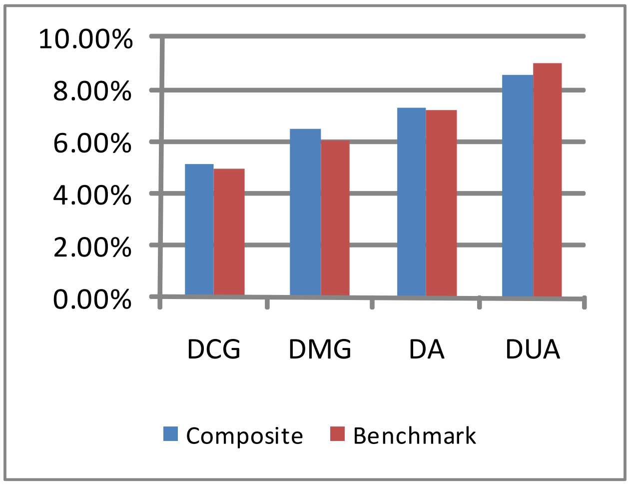
Portfolio activity was relatively muted in April. There were some positional changes in certain strategies, but no major allocation shifts. Overall, we continue to view portfolios as close to or slightly above benchmark levels of volatility, depending on the policy.

April 2011

Month: April 2011		
Policy	**Composite**	**Benchmark**
DCG	2.44%	2.03%
DMG	2.67%	2.28%
DA	3.15%	2.54%
DUA	3.69%	2.96%

Year To Date: 2011		
Policy	**Composite**	**Benchmark**
DCG	5.18%	4.97%
DMG	6.48%	6.07%
DA	7.34%	7.18%
DUA	8.60%	9.05%





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