



**The first quarter of 2010 was a good one, with U.S. stocks enjoying healthy gains and bonds earning at least small positive returns.**

**We have been expending a huge amount of research effort to thoroughly understand the overall environment and the various ways macro trends could play out. The main story is that the need to reduce spending now, in order to reduce the massive debt built up in previous years, suggests the strong possibility of a sluggish economy in the future.**

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# Quarterly Investment Commentary

Mariner Wealth Advisors, LLC

First Quarter 2010

## Investment Review

Following a strong March, all domestic equity asset classes are now well into positive territory year-to-date. The large-cap Vanguard 500 Index was up 5.4% for the quarter, while the iShares Russell Midcap benchmark gained 8.6% and the small-cap iShares Russell 2000 gained 8.8% for the first three months. Foreign stocks also posted strong gains in March and are now in the black for the year so far, with the Vanguard Total International Stock Index and the Vanguard Emerging Market Stock Index up 6.7% and 8.2% for the month, and 1.5% and 2.5% for the quarter, respectively.

Turning to fixed income, the domestic intermediate-term, investment-grade Vanguard Total Bond Market Index gave up a bit of ground (-0.1%) in March, though posted a positive 1.7% return year-to-date. Developed foreign bonds (as represented by the Citigroup World Government Bond Index) slid 1.7% in March and are down 1.3% for the year so far. Emerging-markets bonds gained an impressive 4% for the month (as measured by the JPMorgan GBI-EM Global Diversified Index), ending the quarter with a 5.4% return. High-yield bonds posted a 3.1% gain in the month, ending the quarter up 4.8%.

## 2010 Outlook

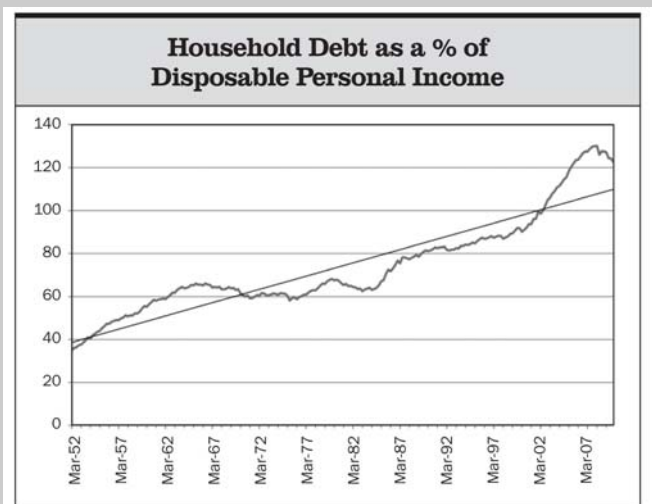
### *Looking Down From 30,000 Feet, the Landscape is Dominated by Mountains of Debt*

A year ago the stock market had just started its rebound from the depths of the worst bear market in over 70 years. The powerful rally in "risk" assets over the past year is certainly comforting. Though the worst case of a great depression has been avoided, the global economy continues to struggle in the aftermath of massive wealth destruction and a hard stop to the decades-long trend of expanding indebtedness.

More so than in past periods, the investment climate in the years ahead will be highly influenced by how the key macro components of this environment unfold. We've seen massive growth in debt throughout society, reaching binge levels in the last decade. Think of all that debt as a form of borrowing against future consumption — now we must pay it back in the form of less spending. This suggests a sluggish economy may unfold.

Government spending has kept the economy from falling off a cliff, but at a longer-term cost of massive deficits that will be difficult to fix without causing more damage — including the possibility that shifting gears to cut budget deficits too early could throw the economy into a significant and ugly decline.

The recent economic strength stems mostly from this stimulus spending and smaller inventory drawdowns (companies are still drawing down inventories — selling more than they are producing so that inventories decline — but the drawdown has slowed). The problem is that both of these factors are temporary.



*Debt is coming down, but is historically very high relative to income.*  
Source: Federal Reserve.

There is still a lot of government spending that will roll out this year but unless there is a new round of stimulus, which is quite possible, it will dissipate in coming quarters. Inventories will be a positive growth driver for a while as they are gradually rebuilt, but this too

in coming years. We don't know how this will play out, but the weight of the evidence suggests to us that even with a strong temporary snapback, we shouldn't be optimistic about a return to a strong labor market for several years.

Other big problems include huge amounts of commercial real estate debt coming due, continued strains in the housing market, and possible high inflation down the road from deficit spending.

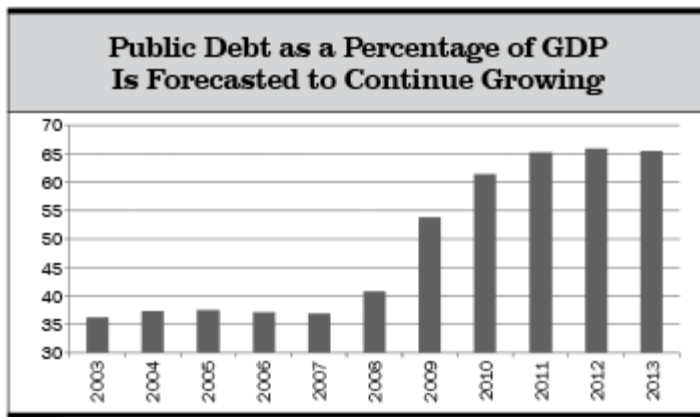
There are some positives that could contribute to a better outcome, including continued strength from emerging economies. Domestically, we could see stimulus spending, low rates, and inventory rebuilding create a virtuous circle in which businesses with strong balance sheets add jobs, and consumer and business confidence builds and feeds on itself.

### ***The Value of Our Internal Investment Management Team***

Investment decisions involve determining if you are being adequately compensated for risk. While we see many risks for stocks, we see opportunities as well. The importance of high quality research and due diligence is extremely important in the current economic environment, both domestic and global. An investor must measure current risk versus future reward — this requires patience.

The possibility that it may take years to complete the process of deleveraging is not uplifting. It may feel better to skew towards a positive view in an uncertain economic environment, but it is not a path to generating better returns. This is why we are committed to working hard to understand the reality in which we live and to make decisions accordingly. That said, we think a volatile, challenging environment plays to our strengths. We have added significantly to our investment management capability in recent years. Over the next decade we believe this will help us ratchet down risk when it doesn't make sense to take it, and take advantage of opportunities when they are presented.

As always, feel free to contact us with questions, or visit us at [www.marinerwealthadvisors.com](http://www.marinerwealthadvisors.com).



*Stimulus spending and falling tax receipts have caused a spike in public debt. The debt burden is forecast to worsen significantly due to the increasing cost of entitlement programs like Medicare and Social Security, and of servicing the national debt.*

will pass as the year progresses. Other sectors of the economy are strengthening — manufacturing in particular has been impressive but it is still far below its prior peak and overall, the economy is on fragile footing. What we don't yet know is whether the economy will be on solid enough footing to stand on its own as government supports are withdrawn and inventories stabilize, or whether it will stumble and possibly contract again.

In normal cycles the consumer is the key to sustained growth. The weakness in this critically important sector suggests to us that a sluggish recovery is the most likely outcome over the next couple of years and that there is still risk of a return to recession if government policies are not skillfully managed.

There are several important variables to a strong and sustainable economic rebound, but jobs are the most important. The big question is not whether the job picture will improve, but how much it will improve and how quickly. But while the labor market remains very weak, monthly job losses likely peaked some time ago, and we appear to be entering a period of net job creation.

A strong snapback in job creation at some point would not be shocking. With over eight million jobs lost, there was probably some overreaction on the part of businesses that will be reversed. However, we also believe that businesses are adjusting to a smaller workforce in the face of continued concern about economic growth

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