

# WEST FINANCIAL SERVICES, INC.

 A Sandy Spring Bank Company

Equity markets entered the first quarter on a very strong note, reaching levels on the S&P 500 not seen since June 2008. Following a 7% advance through mid-February, the confluence of macro events in the second half of the quarter caused the index to correct by 6.4%, dipping into negative territory for the year. Investors were concerned that uprisings in the Middle East and North Africa, higher oil prices, and the devastating earthquake in Japan could derail a fragile global economy. Reports on the U.S. economy remained mixed, with housing weak, inflation a growing concern, but with improvement in employment, manufacturing and consumer sector indices. By quarter end, the economy continued to show signs of steady improvement, which helped stocks to overcome the heightened geopolitical risks.

The S&P 500 proved its resilience by rallying back from the March 16th low to finish the first quarter with a total return of 5.92%. Mid and small capitalization companies, represented by the S&P 400 and S&P 600, continued their outperformance returning 9.36% and 7.71%, respectively. International equities, represented by the MSCI EAFE, rose 3.36%. While domestic equities recovered relatively quickly, concern over the damage to the Japanese economy hurt equity performance on the Nikkei and other Asian exchanges.

Performance for various indices for the three-month (not annualized), one-year, three-year and five-year periods is as follows:

<u>Dates</u>	<u>Bond Indices</u>			<u>Equity Indices</u>					
	<u>Barclays Cap 1-5 Yr. A3/A-</u>	<u>Barclays Cap US Credit Index</u>	<u>Barclays Muni</u>	<u>Dow Jones Ind. Avg.</u>	<u>NASDAQ Composite</u>	<u>S&amp;P 500 (Large)</u>	<u>S&amp;P 400 (Medium)</u>	<u>S&amp;P 600 (Small)</u>	<u>MSCI/EAFE (Int'l)</u>
12/31/10 - 3/31/11	0.81%	0.89%	0.51%	7.07%	4.83%	5.92%	9.36%	7.71%	3.36%
3/31/10 - 3/31/11	4.33%	7.01%	1.63%	16.51%	15.98%	15.65%	26.95%	25.27%	10.42%
3/31/08 - 3/31/11	4.93%	7.02%	4.47%	3.12%	6.86%	2.35%	10.00%	8.36%	-3.01%
3/31/06 - 3/31/11	5.43%	6.42%	4.14%	4.87%	3.52%	2.62%	6.07%	3.67%	1.30%

Domestic equity prices still remain attractive both historically and relative to fixed income. Since our last letter, 2011 earnings-per-share ("EPS") estimates for the S&P 500 have risen by \$3 to \$98, which translates to a year-over-year growth rate of 15%. The index is currently trading for less than 14x forward earnings, below the 20-year average of 16x earnings. Within equities, large and mega cap stocks remain at a relative 10% to 20% discount to the index.

Nonetheless, there are numerous potential speed bumps that must be monitored. The most pressing issue for earnings is rising commodity prices and the potentially negative impact on margins. Companies unable or unwilling to pass through rising costs may see margins erode and be forced to revise EPS estimates downward for the year.

Rising commodity prices are also causing higher rates of inflation globally. Central banks in China and Australia, for example, have already raised interest rates a number of times to slow the growth in their countries. Here in the U.S., the latest consumer price index (CPI) release reported headline CPI up 2.1% year-over-year, which includes several months of declining CPI in early 2010. The headline number includes food and energy prices, which have increased by 2.3% and 11.2%, respectively. The CPI increased 0.4% in December and January, and prices were up 0.5% in February. This latest release shows prices rising at a 5% rate, if annualized.

Looking forward, a key question is "how will financial markets react when federal and monetary stimulus is slowly withdrawn over the second half of the year?" As long as unemployment remains elevated, the economy is still fragile despite gradual improvements. Since August 2010, the Federal Reserve's quantitative easing (QE2) program provided a strong tailwind to equity and commodity prices. The end of QE2, tentatively scheduled for June, is expected to curtail some upside in the stock market by reducing liquidity and increasing uncertainty. Conversely, it should also slow the appreciation of certain commodities. Despite the increased uncertainty, we believe that investors will be rewarded for holding equity assets due to solid, albeit slower growth.

For fixed income, portfolios need to be structured to weather rising rates and inflation. We continue to build our fixed income maturity ladders out to five years. Our bias towards short maturities has allowed us to purchase bonds this quarter with higher yields, as the two-year Treasury has ranged from 0.58% to 0.85% and the 10-year Treasury has ranged from 3.38% to 3.70%. We expect yields to increase, with the two-year Treasury ending calendar year 2011 at 1.30%, and the 10-year rate just under 4%. We have focused on corporate securities and have begun buying municipal securities, selectively. We continue to add to our Treasury Inflation Protected Securities (TIPS) and will be in a position to buy bonds with higher yields, as rates rise.

The SEC has updated the requirements for form ADV, a disclosure document. All Registered Investment Advisors are now required to file with the SEC and deliver to all clients the new form ADV Part 2A. The new form must address thirteen specific topics and be written in a plain English narrative format. We will be sending out the new form Part 2A and 2B in the second quarter. If you would like to receive the new ADV by email, please be sure we have your correct email address. The ADV is also available on our website at [www.westfinancial.com](http://www.westfinancial.com), if you would like to see the filing earlier.

Enclosed you will find your portfolio appraisal as of March 31, 2011. We have provided performance reports for the quarter, one-year, three-year and five-year periods where applicable. Please note that your portfolio appraisal now includes reinvested dividends as part of the mutual fund cost basis in the quarterly

report. This should eliminate some of the differences you may have experienced between the cost basis in our quarterly reports and the statements provided by our custodians, Schwab and Fidelity. This change does not affect performance reporting in our current or past reports. For additional changes scheduled to occur with regard to the reporting of cost basis for tax purposes, please see our March newsletter.

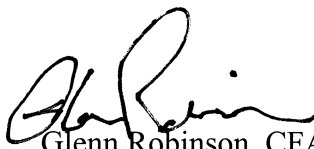
With tax season upon us, please make sure to update us with regard to your tax situation. Information such as your Federal tax bracket in the prior calendar year, whether or not you were subject to alternative minimum tax (AMT), available carry forward losses and any change in tax preparer can be beneficial in managing your portfolio and coordinating with your tax planning.

West Financial is pleased to report that Glen Buco, Kim Cox and Kristan Anderson were recognized in the April edition of *Northern Virginia* magazine as Top Financial Professionals. Glen and Kim are listed in the Investment Planning section, while Glen and Kristan are listed in the Retirement Planning section.

Referrals of family, friends and colleagues who may benefit from financial planning and investment management guidance are always welcome. Thank you for recommending our firm and for your continued trust in our services.



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