

# SMITH HAYES

## Financial Services

Fourth Quarter 2009  
Volume 1, Issue 5

**SMITH HAYES**

Financial Services Corporation

Member FINRA & SIPC

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### A Sincere Thank You & The Road Ahead....

*John Decker, Executive Vice President*

As 2009 draws to a close, it is appropriate to take time to reflect on what has proven to be one of the most interesting and challenging periods in recent history. In a sense, we've had front row seats to witness the most tumultuous economic upheaval of the past 20 years or more. In addition, we are experiencing significant changes in banking and financial services sectors with more to follow in the months to come. As we take inventory of where we've been and where we are headed, we are first thankful:

For our clients, who have been resilient and loyal in spite of shared trials; and

For our financial advisers, who stand firm and represent our company with high integrity and trust; and

For our employees, who work very hard and provide much needed support for one another; and

For our company, while not immune to the effects of a weakened economy, remains financially strong having avoided many of the pitfalls created by Wall Street financiers.

Looking forward, we are mindful of the myriad challenges we face as financial professionals. While our duties may be even more complex, we are confident that an independent broker dealer like SMITH HAYES is poised to succeed: our people are talented, focused and engaged, they are committed to a process of continuous improvement and they have a rising expectation of excellence.

As such, you can expect to see some changes at SMITH HAYES in 2010.

We are in the process of rolling out a three year strategic plan that will:

- Better define and enhance the services we provide clients; and
- Refine and streamline many of our internal processes; and
- Focus and amplify our community outreach activities; and
- Increase the level of knowledge and expertise of our advisers.

We believe these are worthy goals and we are proud of our firm's dedication to achievement. There are many lessons to learn when tested (as we've all been recently). Our job now is to rise to these challenges with an expectant hope that an ongoing commitment to work excellence is its own reward. Thank you for your business!

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### Important Factors For 2010....

*Clinton Rushing, CFA, Research Coordinator*

While U.S. equity markets rebounded sharply during 2009, the coming year looks to be an important period of time in terms of determining the sustainability of the recent improvement in the global economy. Looking to 2010, investors will be focusing their attention on several important factors in regard to the global economy.

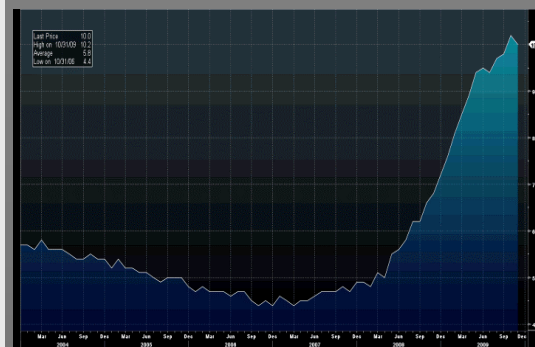
**1. Labor Market Trends**— After having ended 2008 at 7.2%, the unemployment rate increased to 10.0% as of the end of November. From a psychological and financial standpoint, a recovery in the labor market is one of the most important factors to look for during 2010. Modest signs of improvement were visible during the final months of 2009, especially in regard to non-farm payrolls, and initial claims activity, but Wall Street will be looking for these trends to strengthen during 2010.

**2. Interest Rates**— Another important factor to monitor during 2010 is in regard to the eventual timing of an interest rate increase from the Federal Reserve. At its final meeting for 2009, the Federal Open Market Committee reinforced its view that the federal funds rate will likely remain exceptionally low for an extended period of time. Wall Street is currently attempting to determine just how 'extended' the current low rate environment can be as signs of economic growth continue to grow stronger. The Fed is faced with a difficult balancing act of ensuring that the economy gets solidly back on track to recovery, while at the same time avoiding the perils of inflation created by an overly accommodative monetary policy.

**3. International Growth Trends**— While the U.S. economy began to show signs of improvement during the second half of 2009, the economic growth in international markets has been truly notable relative to domestic growth. India's economy expanded at a 7.9% rate during the third quarter, while China's economy expanded by 8.9% during the same period (Bloomberg). Heading into 2010, investors will be looking for a continuation of strong economic growth in international markets.

**4. Housing Market Trends**— With the help of government tax incentives and low interest rates, the U.S. housing market showed signs of improvement during the second half of 2009. Existing home sales increased by 10% during October, while months inventory declined to 7.0 months of supply, which is the lowest reading since February 2007 (Bloomberg). If the housing market can continue to recover during 2010, this would be an important step in reestablishing consumer and investor confidence following several challenging years in the residential housing sector.

### Unemployment Rate, 2003-Present



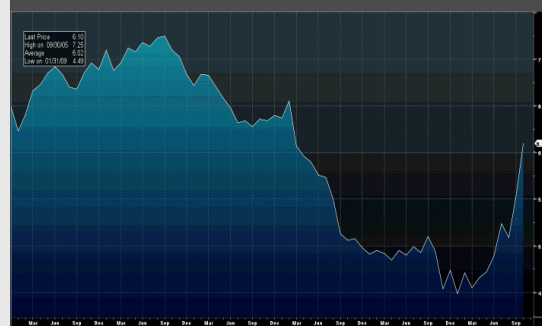
Source: Bloomberg Chart

### Global GDP Comparisons:

Country	3Q 2009	2Q 2009	1Q 2009	4Q 2008
China	8.9%	7.9%	6.1%	6.8%
India	7.9%	6.1%	5.8%	5.8%
U.S.	2.8%	-0.7%	-6.4%	-5.4%

Source: Bloomberg Data

### Existing Home Sales, 2003-Present



Source: Bloomberg Chart

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### An Overview of Gold as an Investment Option...

Clinton Rushing, CFA, Research Coordinator

- The classic Greek myth of King Midas is well known to many people around the world. King Midas was obsessed with gold, and when given the opportunity for one wish, he desired that everything he touched would turn into the shiny precious metal. After King Midas discovered that his 'golden touch' had negative implications for his health and mental well-being, he realized his folly in wishing for the ability to turn everything into gold, and was accordingly restored to his former self.
- During much of 2009, investors had taken on the mentality of King Midas in many regards, pushing up the price of gold to eye-popping levels. In fact, during the last few months of 2009, the price of gold increased sharply, rising to over \$1,200 an ounce this past December (Bloomberg). Indeed, since the end of 1999, the price of gold has advanced by approximately 281%, which compares favorably to the price performance recorded for the S&P 500 during the same time frame.
- Historically, gold and other precious metals have been viewed as hedges against inflation. In addition, investors often flock to gold during times of economic or political calamity, preferring the perceived value of gold relative to fiat currencies. The dramatic increase in government spending and loose monetary policy within the U.S. has created the potential for inflation sometime down the road, and investors are seeking to hedge this risk by purchasing gold. However, while gold prices have been trending upward for the past several years, speculative interest in the precious metal has increased notably as of late, which could create the potential for heightened levels of volatility in regard to gold prices during the coming years. Also, if inflation remains tame in the future and economic growth improves within the U.S. and abroad, the price of gold could come under selling pressure in the future.
- However, this is not to say that gold shouldn't be a component of a diversified investment portfolio. Investors such as Jean-Marie Eveillard, Senior Adviser, First Eagle Funds, have long viewed an investment in gold as an 'insurance policy' that can be of use during times of inflation or economic and political instability, and this line of thinking still has merit in the context of today's investing climate. There are several ways in which investors can add gold to their portfolios, including individual gold-mining equities, gold-focused mutual funds, exchange traded funds, as well as purchasing physical gold. As always, your SMITH HAYES investment representative is available to provide additional information on this topic, or a host of other investing subjects.

#### Historical Asset Price Comparison:

Asset	12/31/1999 Price	12/31/2009 Price	% Change
Gold	\$289.76	\$1104.70	281.2%
Oil	\$25.60	\$79.36	210.0%
S&P 500 Index	1469.25	1115.10	-24.1%
Nasdaq Index	4069.31	2269.15	-44.2%

Source: Prices/Chart Courtesy of Strategas Research Partners

*Investment in gold and gold related investments presents certain risks, including political and economic risks affecting the price of gold and other precious metals like changes in U.S. or foreign tax, currency or mining laws, increased environmental costs, international monetary and political policies, economic conditions within an individual country, trade imbalances and trade or currency restrictions between countries. The price of gold, in turn, is likely to affect the market prices of securities of companies mining or processing gold, and accordingly, the value of investments in such securities may also be affected. Gold-related investments as a group have not performed as well as the stock market in general during periods when the U.S. dollar is strong, inflation is low and general economic conditions are stable. In addition, returns on gold related investments have traditionally been more volatile than investments in broader equity or debt markets.*

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### Municipal Bonds: The High Tax Remedy

Blaine Spady, Vice President, Public Finance

What will higher taxes mean for your investment portfolio? Since the possibility of higher taxes appears to be imminent, the answer to this question is becoming increasingly important. One of the tools traditionally used to mitigate the adverse effects of increased taxes on your investment income is municipal bonds. Tax free municipal bonds are an effective way to generate investment income that is shielded from both state and federal income tax.

SMITH HAYES Financial Services Corporation underwrites Nebraska local municipal bonds. This gives you, our investors, access to the primary bond market. Having the opportunity to buy municipal bonds straight from the "factory", straight from SMITH HAYES Financial Services Corporation, can result in lower costs to you. Firms without an underwriting department generally offer municipal bonds that have been previously traded on the secondary bond market. In most cases, the previously traded bonds are marked up in price to cover costs.

In 2009, SMITH HAYES was involved in over 30 financings and placed over \$60.0 million in Bonds and Lease Purchases. We've helped cities, counties, sanitary improvement districts, street improvement districts, hospitals, nursing homes, and airport authorities finance their projects. These projects include the construction of sewers, roads, nursing homes, hospitals, courthouses, jails, pools, libraries, condominiums, water wells, a lake, and various other projects throughout the State of Nebraska. Our objective of providing our investors a well diversified range of investment opportunities in municipal bonds will continue to follow us into 2010 and the years to come.

### Tax Exempt Securities 2009 Nebraska Tax-Free vs. Taxable

		Taxable Income					
Single Returns	\$ -	\$ 8,350	\$ 33,950	\$ 82,250	\$ 171,550	\$ 372,950	
	To	To	To	To	To	And Over	
	\$ 8,350	\$ 33,950	\$ 82,250	\$ 171,550	\$ 372,950		
Joint Returns	\$ -	\$ 16,700	\$ 67,900	\$ 137,050	\$ 208,850	\$ 372,950	
	To	To	To	To	To	And Over	
	\$ 16,700	\$ 67,900	\$ 137,050	\$ 208,850	\$ 372,950		
Marginal Federal Rate	10.00%	15.00%	25.00%	28.00%	33.00%	35.00%	
Marginal Nebraska Rate	3.57%	5.12%	6.84%	6.84%	6.84%	6.84%	
"Effective" Nebraska Rate	3.21%	4.35%	5.13%	4.92%	4.58%	4.45%	
Total "Effective" Tax Rate	13.21%	19.35%	30.13%	32.92%	37.58%	39.45%	
		Tax-Free Yield					
	3.25%	3.74%	4.03%	4.65%	4.85%	5.21%	
	3.50%	4.03%	4.34%	5.01%	5.22%	5.61%	
	3.75%	4.32%	4.65%	5.37%	5.59%	6.01%	
	4.00%	4.61%	4.96%	5.72%	5.96%	6.41%	
	4.25%	4.90%	5.27%	6.08%	6.34%	6.81%	
	4.50%	5.19%	5.58%	6.44%	6.71%	7.21%	
	4.75%	5.47%	5.89%	6.80%	7.08%	7.61%	
	5.00%	5.76%	6.20%	7.16%	7.45%	8.01%	
	5.25%	6.05%	6.51%	7.51%	7.83%	8.41%	
	5.50%	6.34%	6.82%	7.87%	8.20%	8.81%	
	5.75%	6.63%	7.13%	8.23%	8.57%	9.21%	
	6.00%	6.91%	7.44%	8.59%	8.95%	9.61%	
		Taxable Equivalent Yield					
	3.25%	3.74%	4.03%	4.65%	4.85%	5.21%	
	3.50%	4.03%	4.34%	5.01%	5.22%	5.61%	
	3.75%	4.32%	4.65%	5.37%	5.59%	6.01%	
	4.00%	4.61%	4.96%	5.72%	5.96%	6.41%	
	4.25%	4.90%	5.27%	6.08%	6.34%	6.81%	
	4.50%	5.19%	5.58%	6.44%	6.71%	7.21%	
	4.75%	5.47%	5.89%	6.80%	7.08%	7.61%	
	5.00%	5.76%	6.20%	7.16%	7.45%	8.01%	
	5.25%	6.05%	6.51%	7.51%	7.83%	8.41%	
	5.50%	6.34%	6.82%	7.87%	8.20%	8.81%	
	5.75%	6.63%	7.13%	8.23%	8.57%	9.21%	
	6.00%	6.91%	7.44%	8.59%	8.95%	9.61%	

The income from investing in municipal securities may be subject to state and local taxation and the Alternative Minimum Tax (AMT). The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete, and its accuracy cannot be guaranteed. Investing in municipal bonds involves interest rate risk, the risk that interest rates will rise, causing bond prices to fall; and credit risk, the risk that an issuer of a municipal bond will be unable to make interest and principal payments. SMITH HAYES does not provide tax or legal advice.

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### Going 'Green' With SMITH HAYES.....

- Considering that the ideas behind the Arbor Day holiday started right here in Nebraska with the help of Julius Sterling Morton, it is only natural that SMITH HAYES would do its part to help the environment.
- In particular, SMITH HAYES recently unveiled its e-Notification service for online brokerage statements and trade confirmations. Now, accessing and managing your brokerage account information is just one click away. With e-Notification, you can elect to view your brokerage statements and trade confirmations online at <http://www.smithhayes.com>
- e-Notification provides our clients with access to three years of brokerage statements and automatically notifies you when your current account statement is ready for viewing.
- In addition to more timely access to your account information, the e-Notification service provides our clients with a 'green' alternative to traditional printed statements.

#### **e-Notification Can Help You To:**

- Protect Your Identity
- Simplify Recordkeeping
- Go Green
- Save Time



Contact your investment consultant to learn more about how you can take advantage of e-Notification.

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