

Halifax in 2010

December 30, 2009

First some history and a look back

The Halifax Model started December 31, 2001. It is one of our original models. The minimum account size is \$250,000 and most Halifax accounts are under \$500,000 in value. However, if accounts in the model grow to be larger than \$500,000 we do not move them out of the model.

Halifax is managed very similarly to Mendocino. That begs two questions. Why do we have Halifax? Why not just put suitable accounts into Mendocino?

When we started the model trading costs for the accounts were higher than they were for most of the Mendocino accounts. That was because of policies at Fidelity. Trading costs for smaller accounts were almost double the amounts for larger accounts.

5T Wealth has been very aggressive about continuously negotiating for lower trading costs for all our clients. Earlier this year we were pleased to announce that we had gotten trading costs down to \$8 for all accounts. So the disparity no longer exists.

While there are often similarities between Mendocino and Halifax, there are also differences. Halifax has definitely taken on its own character over the years. There are currently 30 stock positions in Halifax for a 52% allocation to equities. Sixteen of those positions have dividend yields in excess of 4%. Four more have dividend yields over 3%. So Halifax offers both growth and income characteristics.

All of the dividend payers have good histories of raising their dividends from time to time. Therefore the model offers the potential for rising income over time.

Halifax is one of our smaller models in terms of gross assets under management. That makes sense since the accounts tend to be smaller than those in Hatteras, Mendocino and Fresnel. Because of its small size it occasionally benefits from picking up a small cap stock, or two, that trade too thinly to be in our larger models.

A current example is a very small cap gold mining company called Taseko Mining (TGB). It is a great little company that simply trades too thinly for us to have a material position in the bigger models.

On the other hand Halifax accounts are often too small to own some of the more expensive large cap stocks. It is hard to buy Google (GOOG), for example. A 2% position would only be 5 to 7 shares for most Halifax accounts. At \$8 for a trade, we add more than \$1.00 to the price of each share just to pay the cost of getting in. The larger accounts in Hatteras and Mendocino pay only pennies per share because they can afford to buy more.

In the end it probably all evens out as the long term track records of Halifax and Mendocino are very similar.

Looking ahead to 2010

Halifax heads into 2010 with an allocation to equities of 52%, with heavy emphasis on high yield stocks. Thirty-one percent is allocated to a 1-5 year ladder of corporate bonds. Fourteen percent is allocated to money market (cash). Approximately 3% is allocated to gold.

Here is a brief description of Halifax:

"The Halifax Model is often constructed as a balanced portfolio containing equities, bonds, cash as well as other asset classes. Recently it has been invested more defensively with a significant allocation to bonds. That can change at any time. No short positions are ever held in the Halifax model, and it is technically a 'long only' model. Therefore it is suitable for ERISA (retirement) accounts and most non-profit and charitable foundations. However the manager may simulate the behavior of short positions by taking positions in Exchange Traded Funds (ETF) that are inverse funds and profit as underlying assets decline in value. The proliferation of inverse ETF's allows the manager to hedge the portfolio without having to take short positions. This technique is employed to dampen volatility or to enhance return.

The manager is focused on absolute return and not relative return. Therefore the manager may take long positions or simulate short market positions, using the afore mentioned inverse ETFs. The manager also uses strict disciplines related to stop-loss orders and other techniques to minimize portfolio volatility. The manager may use a wide variety of asset types to achieve the stated goal including: individual stocks traded on major U.S. exchanges; exchange traded equity and bond funds (ETF's); options; mutual funds; American Depository Receipts (ADR's); and individual stocks traded on Canadian exchanges. No direct leverage is used in the model as margin is not available to retirement accounts."

Summary and Conclusions

- We go into 2010 optimistic about equities, even though we still have misgivings about the U.S. economy. Our optimism is tied to our view that global GDP growth could exceed 4% even if growth in the U.S. is sluggish.
- We have "hand-picked" all the equities in Halifax, just as we have in our other models, and have been over them with a "fine tooth comb". We believe that if the markets perform well, our picks are likely to perform better.
- Stocks in the Halifax model tend to pay higher dividends than those in Hatteras, Mendocino or Fresnel.
- Our largest sector bet is oil and gas related.
- We are neutral to slightly bearish on bonds, thus the reduction in allocation.
- We remain extremely bullish on gold, agricultural commodities and commodities in general. These assets have been under pressure in the past three weeks because of an upward bounce in the dollar. We have made our bearish case for the U.S dollar in multiple newsletters over several years. We see any bounce in the dollar as very temporary. We are very committed to the idea that when the current dollar rally ends we will be able to use the cash currently held in the accounts to buy commodities in order to profit from the next leg up in what should be a multi-year bull market for most commodities.

Contact Us

If you are a current client and have specific questions about your Halifax account, please feel free to call either Lee at (707) 603-2673 or Paul at (707) 6030in Or, send us an email at lee@5twealth.com or paul@5twealth.com.

If you are a prospective client and would like more detailed information about either model please call or write. We are happy to answer your questions.

Happy Holidays,



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Disclosure and Disclaimer - Updated last on August 13, 2007 by Paul Krsek:

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5T WEALTH MANAGEMENT manages accounts with various histories and investment objectives. Various accounts may be managed differently from time to time.

Krsek makes frequent reference to the model portfolios called Hatteras, Mendocino, Halifax, Bonavista, Fresnel and The New World. During 2005 Paul Krsek was appointed Chief Investment Officer of 5T WEALTH MANAGEMENT, and as such is responsible to make all trading and management decisions for all client accounts which are being managed according to a specific portfolio model. A description of each of our models can be found on our website at <http://www.kaassets.com/choices.htm>.

Not all accounts managed by 5T WEALTH MANAGEMENT are "modeled" accounts. We strongly urge our clients to understand which model, if any, are being used to manage their accounts.

As of July 3, 2007 Lee O'Dwyer joined 5T WEALTH MANAGEMENT as a portfolio manager. Paul Krsek and Lee O'Dwyer frequently discuss

investment ideas, model portfolio strategies and the investment policies of 5T WEALTH MANAGEMENT. But when it comes to the implementation of those policies Krsek is primarily responsible to manage the accounts that fit into each model portfolio description. He generally makes all final investment and trading decisions relative to those accounts that are considered to be "modeled." However, in Krsek's absence O'Dwyer does have the authority to trade all client accounts. He has been actively trading accounts in the various models since joining 5T WEALTH MANAGEMENT.

From time to time 5T WEALTH MANAGEMENT receives requests from clients to purchase securities that are not included in the model portfolio to which they are assigned. Effective May 24, 2006, 5T WEALTH MANAGEMENT has encouraged clients to hold such securities in a separate account for the client. Because 5T WEALTH MANAGEMENT is a "fee only" registered investment advisor" it charges its normal management fee for monitoring such securities in the separate accounts in which they are held.

5T WEALTH MANAGEMENT makes every effort to exclude securities that are 'requested by the client' from the modeled portfolio accounts.

The investment objectives of various accounts and models may be substantially different from one another. Therefore topics or investments mentioned in E-Illumination may or may not apply to specific managed accounts and/or models.

Trades or adjustments to accounts mentioned in ELLUMINATION may or may not happen in every account managed by portfolio managers at 5T WEALTH MANAGEMENT.

If you are not satisfied with the investment results in your account it is your responsibility to inform Krsek or O'Dwyer and to discuss possible changes that can be made to the account to accommodate and satisfy your needs.

The assets held in managed accounts at 5T WEALTH MANAGEMENT may include stocks, bonds, cash, commodities, foreign exchange or mutual funds or exchange traded funds (ETF's), money market accounts or limited partnerships that represent the same. They are subject to market fluctuation and the potential for losses. The assets are not insured. The value and income produced by these investment products may fluctuate, so that an investor may get back less than they initially invested.

The portfolio managers at 5T WEALTH MANAGEMENT do not guarantee results.

Past performance should not be considered an indicator of potential future performance. If you do not consider yourself suitable, either emotionally or financially, to experience volatility and/or losses in financial markets, you should not invest.

From time to time Krsek lists the simple annual returns of the six model accounts in this newsletter. These accounts are "models" and do not represent the actual results accruing to individual accounts. Simple annual return does not represent "time weighted return" as reported individually to clients in their quarterly reports prepared using Centerpiece.

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