



SHEPHERD FINANCIAL PARTNERS
EXPERIENCE TRUST COMMITMENT

September 2011 Market Update

We would like to take this opportunity to provide our thoughts on the current economic environment. As the credit crisis has unfolded over the past four years, responses to it (both by governments as well as Market participants) have only become more complex. We are always happy to discuss these as well as any other issues with you in more detail.

Federal Reserve: QE3 scenarios

Markets remain volatile. U.S. economic data continues to weaken, however the numbers do not yet point toward another recession. The Federal Reserve indicated that additional stimulus measures are now being considered and their September Federal Open Market Committee meeting is now slated for two days (September 20-21) in order to allow extra time for debate. These Quantitative Easing measures would come on the heels of their August meeting, where they announced that short term Federal Funds rates would stay at their current levels (0.00%-0.25%) well into 2013.

The new stimulus measures could include additional asset purchases (as occurred in QE1 and QE2), targeting a lower interest rate on longer term Treasury debt (for example targeting a lower 10 year treasury rate in order to stimulate the mortgage and refinance markets), or cutting the rate paid to banks on excess reserves deposited with the Fed in an attempt to increase loan volumes to the private sector. The usefulness of these measures remains to be seen and much of their effects may have already been priced into current Market prices.

Europe in Crisis

The ongoing saga in Europe continues as investors begin to price in a Greek debt default as well as the possibility that they may need to exit the Eurozone. Contagion effects are now affecting Italy and other peripheral EU members (Spain, Portugal) who are also now at risk of entering a sovereign debt crisis. Compounding this crisis, European banks hold a substantial amount of these countries' debt and could suffer massive losses if defaults were to occur.

So far the European response to the sovereign and banking crisis has been tentative at best. Unlike the TARP program and related rescue programs launched by Congress and Federal Reserve in 2009 to combat the U.S. credit and housing crisis, the current rules of the EU make it very difficult for a concerted bailout of either sovereign debt or EU banks to occur. As a result, markets continue to trade on rumors and very little real news.

A Greek sovereign bond default along with an exit from the Eurozone could result in European banks needing significant injections of capital from either public or private investors. More importantly, the unintended consequences following a Greek default could cause global financial market dislocations and increased volatility. Definitive actions by EU member nations and institutions must happen quickly in order to stem a broader systemic crisis.

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This current phase of the credit crisis shares much of the same characteristics as the initial phase the world experienced in 2008; over-levered banks, questionable debt and slowing economic growth. The difference now is that many of the “easy” fixes, cutting interest rates and printing money are not available because governments are either unable or unwilling to employ similar and larger stimulus programs.

Our Current Positioning

In this uncertain economic environment we continue to focus on our guiding investing values; protection of principal and preservation of purchasing power. We remain defensively positioned with equity exposure focused on high-quality dividend paying companies that have the ability to grow earnings despite economic headwinds. Our fixed income investments focus on short to medium duration corporate debt as well as bank loans which are generally higher in the corporate capital structure than bonds and typically secured with pledges of collateral. Focusing on return of capital rather than return on capital is the best plan of action until there are tangible signs of a resolution to these multiple crisis.

As always we value the trust you have placed in us as we remain stewards of your wealth.

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