

Insight

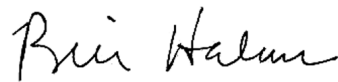
An Economic and Financial Perspective from Wealth Management

Dear Client:

In this issue you will find commentary from our BBVA Compass economic research team as well as a guest article on financial planning techniques.

While 2009 has been challenging, the economy is slowly showing signs of relief. Job losses are easing, and a positive outlook for the housing market is becoming visible, with the Obama administration passing a tax credit for first-time homebuyers. The combination of both fiscal and monetary relief argues for a return to growth in the months ahead.

As we move forward, I am confident that the strength and stability of our nation will uphold and embrace the changes that appear in the coming years.

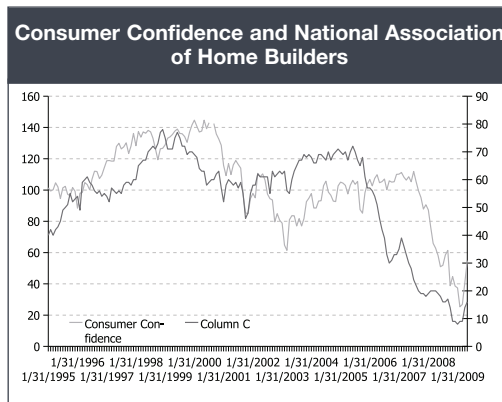


William C. Helms
Senior Executive Vice President and Executive Officer
Wealth Management
713-831-5837 or bill.helms@bbvacompass.com

It's About Time

As this quarter comes to an end, we are finally seeing some relief in the economic freefall of the previous two quarters. To borrow the expression much touted by President Obama, Geithner and Bernanke, there are “signs of stabilization” in economic activity as the decline in a handful of short-term indicators has stopped accelerating, or reversed.

The consumer outlook has improved which, in this environment, means that people are less pessimistic about the economy than they were previously. The change in attitude could spark a slow increase in spending by those who are secure in their employment. The weak job market, however, poses a risk to the recovery of consumption as the economy continues to shed hundreds of thousands of jobs each month and companies institute unpaid furloughs, reduced work weeks and salary cuts.



“The change in attitude could spark a slow increase in spending by those who are secure in their employment.”

Bottoming Out?

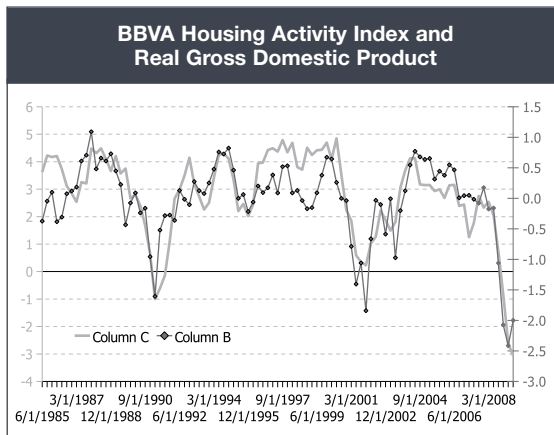
Last quarter the housing market was changing rapidly. Currently, the decline in the housing market appears to be nearing a bottom as deep price discounts, favorable mortgage rates and the tax credit for first-time homebuyers are attracting both new and repeat buyers. Nevertheless, we do expect to see further downward price adjustments because inventories are high and foreclosures are still occurring.

Nonresidential investment, which has fallen dramatically in the past two quarters, will continue to suffer as businesses rein in their spending because of declining corporate profits and credit market constrictions. The demand for U.S. exports has also faltered as the recession has resonated throughout the world. As a result, international trade is expected to present an additional barrier to recovery as the U.S. digs its way out of recession ahead of its major trading partners.

Rocky Road to Recovery

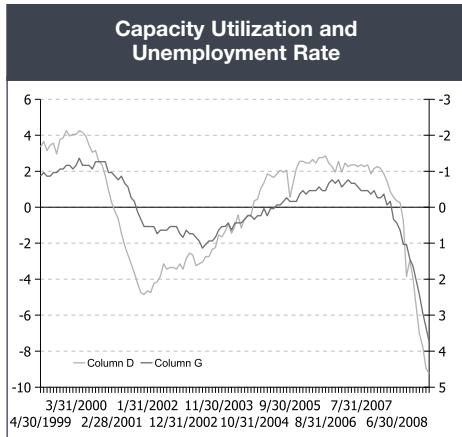
The financial markets have also given off some positive signals through increases in equity prices and improvements in spreads in select bond markets. Better-than-expected results from the stress tests have helped to boost investor confidence.

Nevertheless, the U.S. financial system has a long way to go. The FDIC Quarterly Banking Profile showed that banks face further challenges as they sort through the toxic assets on their balance sheets. Credit markets remain tight, even though the Federal Reserve Senior Loan Officers Survey indicated that we could see slight easing in the coming quarters.



In order to support economic recovery, the Fed has authorized purchases of up to \$1.75 trillion in long-term treasuries, agency debt and mortgage-backed securities. This expansionary monetary policy, coupled with the fiscal stimulus package, has sparked some debate in the market regarding the possibility of high future inflation. Given that indications in the economy point to economic slack in labor and product markets large enough to keep price pressures contained, inflation could actually remain below optimal levels for economic growth. With this in mind, we believe that the Fed will maintain interest rates at the current level of zero to 0.25 percent for a prolonged period of time.

“The financial markets have also given off some positive signals through increases in equity prices and improvements in spreads in select bond markets. Better-than-expected results from stress tests have helped to boost investor confidence.”



Handle With Care

The positive developments in economic activity need to be closely watched because risks to recovery are still prevalent. At the moment, the economy is still contracting, so we expect to see negative GDP growth in the next quarter, but at a slower pace than last quarter. Consumption is expected to lead the resurgence in economic activity in the second half of the year, but the high unemployment rate, the greater propensity to save and the high degree of uncertainty regarding the impact of the fiscal stimulus package could present risks to this scenario.

Financial Planning: A Road Map for the Future

By Jay Goldberg, Director
Stavis, Margolis Advisory Services, Inc., Houston

The swift and historic drop in both financial and real estate assets over the past nine months has left most individual investors 'dazed and confused' with regard to their financial futures. Even the most disciplined and rational investors have suffered enough pain and anguish during the recent market decline to throw aside their best-laid plans and run for the safety of treasuries and other cash equivalents. It is this precise situation, however, which has led to an even greater need for financial planning, and created an environment which is quite attractive to those wishing to produce greater efficiencies within their estates.

All investors, regardless of their net worth, should have a road map to help them achieve their long-term goals. Creating a financial plan based upon today's environment is viewed by many as perhaps a more realistic solution for retirement and other pressing needs. For the affluent, current conditions are especially ripe for a variety of meaningful estate planning techniques. An astute financial advisor has the ability to illustrate and implement these ideas and may create value for their clients above and beyond the traditional financial services relationship.

Low interest rates and low asset valuations are a perfect mix with regard to many types of techniques used to "freeze" or remove assets from a wealthy individual's estate, to better position their families to benefit from future growth. This is the type of discussion where some clients, despite continued fears of the financial markets, still appear engaged and understand the timeliness of the recommendation.

Financial planning techniques such as the use of Grantor Retained Annuity Trusts (GRAT) and sales of assets utilizing Self-Cancelling Installment Notes (SCIN) may be particularly effective in our current environment. Both rely upon a valuation of assets, and present conditions would lend themselves to support a relatively low value. The rate which the Grantor is paid back is tied to the Applicable Federal Rate (AFR), and these have been hovering around two percent as of late. An arbitrage is essentially created between the growth of the underlying asset and the low interest rate paid back to the Grantor. Once this hurdle rate is cleared, excess earnings and growth remains outside one's estate and is effectively growing for one's heirs and beneficiaries going forward. The initial low valuation of the gifted assets, due to depressed market conditions, creates the potential for even greater leverage within these transactions as assets may revert to their average value over time. In addition to these two techniques, the low interest rate environment has led to the discussion of other strategies such as Inter-Family Loans and Charitable Lead Trusts.

Estate planning is rarely achieved by one silver bullet, and instead, tends to be a layering of a variety of techniques in order to achieve efficiency while still assuring the well-being and financial independence of the client. The fear, which is pervasive throughout the realm of individual investors, gives clever financial advisors a chance to differentiate themselves from the pack and make a significant impact upon the lives of their clients. The resulting relationship tends to include the traditional aspects of financial services, such as money management and insurance sales, but begins with creative advice, which the affluent always respect and need. Stavis, Margolis Advisory Services, Inc., a registered investment advisor and a wholly-owned subsidiary of BBVA Compass, is available to discuss cutting-edge planning techniques in order to help define your financial future and provide a fulfilling life for both you and your family.

This information is not intended to be a substitute for specific individualized tax, legal or estate planning advice. Please seek advice from a qualified professional prior to employing any estate, retirement or financial planning strategies.

Jay Goldberg offers securities through FSC Securities Corporation, Member FINRA/SIPC and a registered broker-dealer. Advisory services offered through Stavis, Margolis Advisory Services, Inc., a registered investment advisor. Stavis, Margolis Advisory Services, Inc., is a wholly-owned subsidiary of BBVA Compass Bank. Neither Stavis, Margolis Advisory Services, Inc. nor BBVA Compass Bank is affiliated with FSC Securities Corporation.

"All investors, regardless of their net worth, should have a road map to help them achieve their long-term goals."