

Third Quarter 2009 Client Commentary

September 30, 2009

Our mission is to foster an inclusive, team-based culture of trust and respect whose primary objective is managing our client's wealth both responsibly and creatively; the desired result being to provide and maintain a lifetime of financial independence and peace of mind through all market conditions.

AN OPEN LETTER TO OUR VALUED CLIENTS: George R. Pierce

It's been just over a year since the financial world as we know it collapsed around us. The market's disintegration has been referred to as a "financial tsunami" in terms of its devastation or a "100 year flood" in terms of its perceived frequency. Despite how history defines it, a sizeable number of investors saw it as the single worst financial event in their lifetimes. Add in highly publicized stories of CEOs at many of these same failed financial institutions receiving multi-million dollar bonuses coupled with billion dollar frauds being perpetrated by a handful of investment firms, and it's no wonder investors' confidence in Wall Street, their elected officials, the regulators who oversee the industry, and their own advisors has been shaken to the core.

Despite a 50% rally in the S&P 500 since March 9, 2009, the crippling effect of the events of September 2008 will be felt for many years to come. Some investors will never return to the markets, instead choosing to keep their investments in the bank where loss of principal will no longer be a concern; others will never purchase a common stock or mutual fund again.

As your financial advisors, we have much work to do in order to restore your confidence in the markets and in us. We firmly believe that the real danger for investors in the years ahead will not be a repeat similar to what we saw in 2008 and early 2009, but an unwillingness to look at investments the same way ever again.

There are many reasons for investing, but certainly one of the most common is the desire not to outlive one's accumulated wealth. Without a growing capital component in a portfolio, it can be ravaged by the effects of taxes and inflation. Adding to the old adage, "The only thing that's certain in this life is death and taxes", one could also add "and a healthy dose of inflation." It is taxes and inflation, not market volatility, which is the investor's worst enemy. Without some measure of growth in a portfolio, investors will almost certainly find themselves seeing their wealth erode over time.

So how much "growth" is required you might ask? Recognizing that most of our clients are viewing the world differently and may be less willing to venture along the same path as before, in recent months we have begun implementing additional safeguards into our oversight process in order to regain your confidence in us as well as the investment process in general. A summary of these plans follows:

Re-assessing Your Tolerance for Risk – In order to determine how much "growth", if any, a portfolio requires begins with recognizing that risk tolerance changes with market conditions.

Increasing Client Communication – Our level of proactive contact, whether written or verbal, has been increasing in order to stay in front of trends that may adversely affect your portfolio.

Capital Preservation and Liquidity – Always important in the past, we will be scrutinizing this area of portfolios even more so in the future.

Cash Flow – An especially important portfolio component for our retirees, this will also be a more integral part of all our client portfolios.

Transparency – Even with a highly regulated industry such as ours, it is easy for clients to be unclear with regards to specific issues important to their understanding of the investments they have. This also includes more frequent communications regarding our broker/dealer, LPL Financial.

Strategic Reserves – Another name for “rainy day funds”, this strategy has become more prominent in client portfolios as a safety valve to draw from when portfolios have declined, allowing the portfolio time to potentially recover.

Alarms and Dynamic Asset Allocation – Lastly, more extensive use of comprehensive analytical tools recently provided by LPL Financial are designed to prevent portfolios from straying from predetermined strategies. A sampling of these resources is described below by Elaina Moldskred.

WHERE WE GO FROM HERE: Elaina Moldskred

Looking back on all the volatility we have seen over the past 24 months including the markets recent run up, many people are asking a similar question: “What methods will be used to protect against loss in the future?”. Certainly we cannot place a guarantee against loss, but we have continued to increase our vigilance of client portfolios to help reduce risk and mitigate the impact on the portfolio from a catastrophic event. Several systems and recommendations have been implemented over the past 12 months as a result of lessons learned from the markets over the last two years.

The following steps will continue to be done. Some of these analytical tools and procedures are available for further clarification and review on our website:

Dynamic Asset Allocation – We will continue to recommend broadly diversified portfolios to help achieve exposure in various asset classes. We are reviewing our recommended allocation mix frequently, and will be making changes when deemed appropriate. It could include altering the weighting in a particular asset class given the clients objective or the market outlook. All clients will be notified promptly if a change is made.

Current Condition Index (CCI) –The CCI is an objective and transparent measure of how conditions are evolving relative to LPL’s Bull, Base, and Bear case market and economic scenarios defined in their 2009 Mid-year Outlook. This index is published weekly and is a very useful tool to describe and track conditions in real-time to aid us in our investment decisions.

Portfolio Compass – LPL Financial recently established what is known as the Portfolio Compass. This provides an easy-to-read snapshot of LPL Research’s views on the Economy, Equities, Fixed Income and Commodities, as well as their CCI. The publication illustrates current views (and will change as needed), and incorporates their biases over a 3-12 month time horizon. This publication describes views of a specific category as negative, neutral, or positive, in addition to fundamental, valuation, and technical characteristics for the category. The bias seeks to provides an “early warning” that a change may be looming. Rationales for all the view are also provided. We invite you to visit our website to view a current version of this publication, which is located in the Learning Center under Articles.

Financial Planning – We will continue to offer financial planning services to help our clients meet their long term goals and objectives. The scope of the planning can be narrow in focus, such as retirement planning, or can be much more comprehensive, tackling issues such as insurance analysis and estate planning.

Office Manager Corner: Valerie Wilson

As the year end quickly approaches, we want to remind those of you who would like to make gifts of stocks or mutual funds that those instructions need to be in our office prior to the end of November. Often the transfer of mutual funds can take between 6-8 weeks to re-register the shares, so if you are considering gifting a security, those instructions should be given to us as soon as possible to ensure your gift will be completed by the year end deadline. As a reminder, 2009 contributions to your IRA can be made until April 15th 2010.