



Third Quarter 2010

As the saying goes, the days are long but the years fly by. It has been two years since the financial crisis began. In my October 2008 letter, I talked about the fall of Lehman Brothers and Washington Mutual, Bank of America buying Merrill Lynch and the government taking control of Fannie Mae, Freddie Mac and AIG. The credit markets had frozen as fear and volatility returned with a vengeance. The government and Federal Reserve stepped in with bailouts, guarantees and much needed liquidity.

Two years have passed, and we are no longer in the height of the crisis. The world did not come to an end. Much of the bailout money has been repaid, the credit markets are functioning again, companies are reporting encouraging earnings and individuals are deleveraging. However, unemployment has risen to almost 10%, the housing market is still weak, many banks have failed, remaining banks are not lending as much, and government debt is dangerously high. The recession lasted 18 months and officially ended in June 2009. We feel better, but still not great.

As a reaction to these events, the stock market has been a roller coaster ride the past few years. The S & P 500 fell 57% from its high in October 2007 to its low in March 2009 and has since risen over 70%, but is still well below its all-time high. In September 2010, the index gained 8.9%, its best September result in 71 years and its 4th best performance for any month in the last 20 years. We are seeing big swings in the market though as the S & P 500 has gained or lost at least 4% in each of the last five months. This has happened only one other time in the last decade.

The economy is recovering, albeit slowing. There is still much uncertainty out there, especially with respect to unemployment, housing, deleveraging, monetary and fiscal policies, interest rates and the mid-term elections. We have no clear cut answer yet as to whether the bear market is over or whether we are still in the tail end with more drops to come. By diversifying into additional sectors in both the equity and fixed income allocations, we have attempted to position the portfolios to take advantage of any upswings (but most likely not all of it) while protecting more on the downside if that scenario were to occur.

As return expectations are now lower than historical averages for both stocks and bonds, it is important to think about what this means for your retirement plan now while you still have some control over it. I encourage you to save more if you can. If that is not possible, it is important to understand that you may need to work a little longer or spend less once you are in retirement. As always, we are here to help you work through those decisions.

Speaking of time flying by, we are now in the last quarter of 2010. We will conduct our annual capital gains minimization review of taxable accounts. If there are any transactions (IRA required minimum distributions, Roth IRA conversions, annual gifting) you need to complete or issues you want to discuss (tax, estate planning, insurance, etc.), please contact us soon.

Enjoy the beauty of fall.

A handwritten signature in black ink, appearing to read 'jill', is centered below the text.