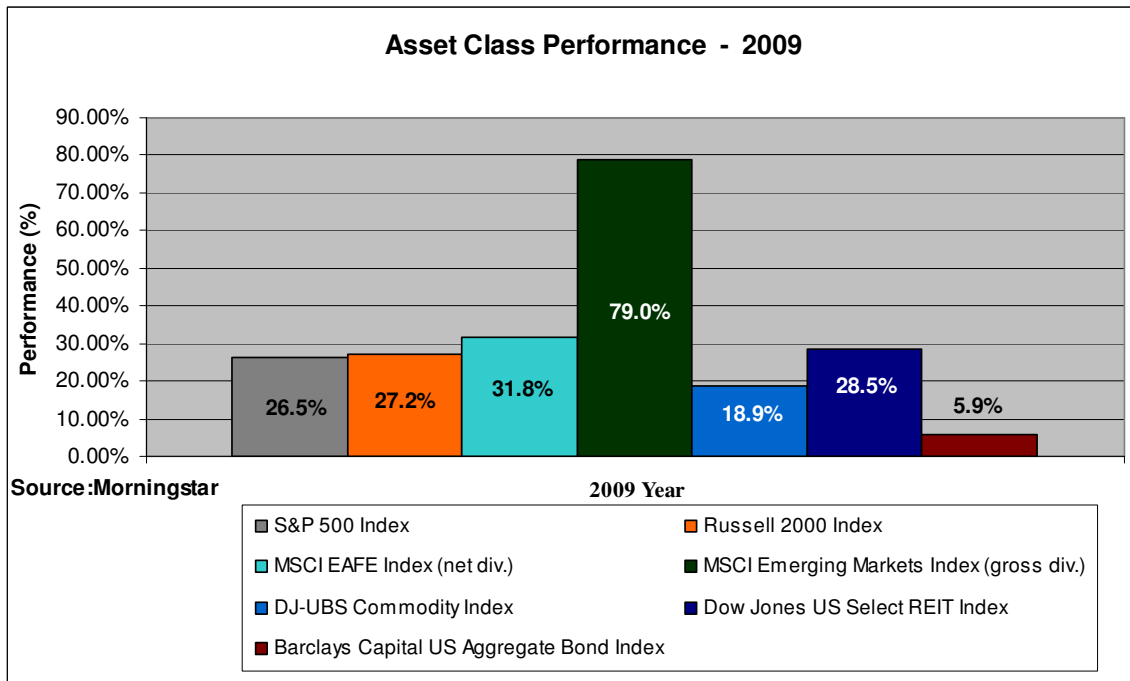


**Investment Commentary** | January 2010

What a few months can do:

*“After sharp declines in both January and February, the domestic stock market reached new lows in early March, foiling the hopes of many that the low reached in late November last year was “the bottom”. The remainder of March, however, generated some very positive returns in all of the major asset classes. Although these positive returns were strong they were not enough to overcome the severe losses earlier in the quarter. Therefore, for the overall period all of the major asset classes, other than emerging markets, generated negative returns. “*

Some of you will recognize the words above as the start of our commentary that we sent out in April 2009. Well, here we are at the end of 2009.



For the year ending December 31, 2009, all major stock indices have ended on the positive side. The S&P 500 was up about 26% while small cap stocks, represented by the Russell 2000, were up approximately 27%. The international developed markets fared slightly better as the MSCI EAFE index closed with a gain of 32% and emerging markets

wowed the world with an annualized return of 79%. Hard assets also had impressive gains for 2009 as the Dow Jones-UBS Commodity index advanced about 19% and the Dow Jones Real Estate Investment Trust (REIT) index increased about 28%. On the fixed income side, the Barclays Capital US Aggregate Bond index ended the year with a solid 6% return. The last year has reconfirmed our belief in two investment fundamentals.

First, you build a portfolio that meets your risk tolerance in order to help you to stay the course when times get tough. Looking back at the S&P 500 as an example, it bottomed on March 6, 2009, at an index level of 666.79; had investors abandoned equities at the March lows, they would have missed out on a 65%+ return as the index recovered and ended the year at 1,115.10. No one can reliably predict market highs and lows, which makes it all that more important to have a diversified portfolio aligned with your risk tolerance such that you stick to your long-term investment plan.

While we work hard to help our clients identify their tolerance for risk, we realize that the last year has given rise to many investors reassessing this area. We have been and will be working with our clients to reconfirm their level of risk tolerance. This is not an easy task. Risk tolerance is impacted by several factors including an investor's latest sentiment about the market, leading to an ever changing risk tolerance level.

Secondly, the past decade has reminded us of the need for broad diversification. The last few years have been very challenging for investors. Not only has the stock market return been below par, but, if we look back over the last ten years, we have endured some very difficult and stressful situations. For example, we have had

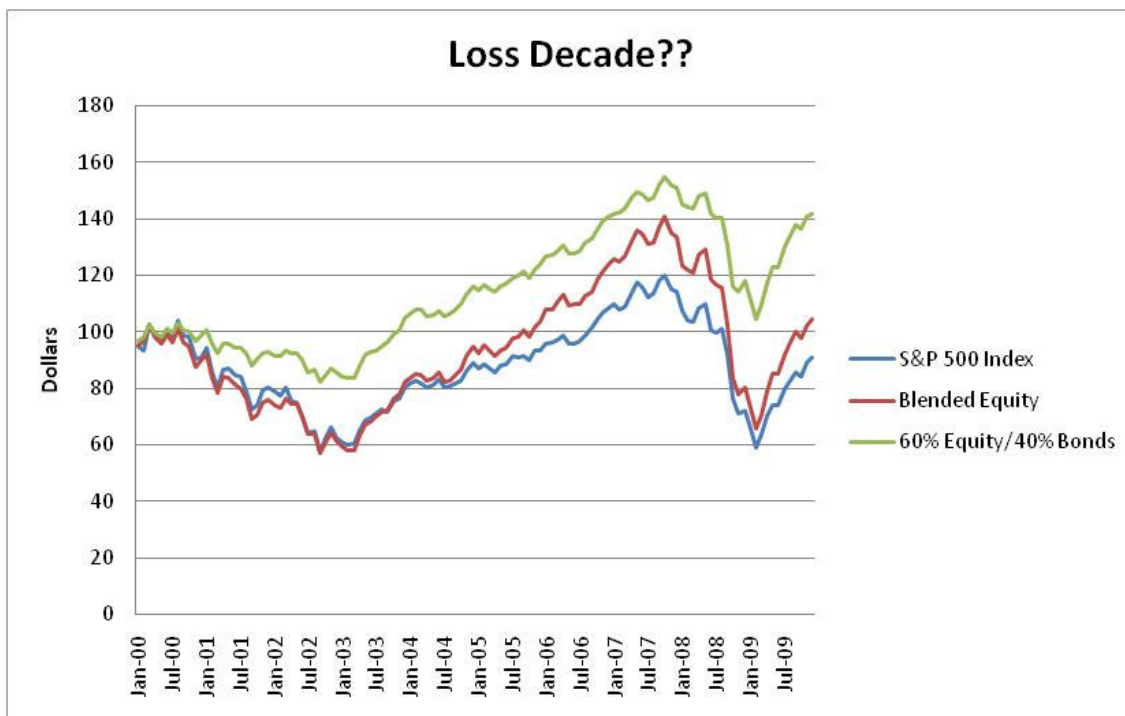
- Several volatile international events:
  - Afghanistan and Iraq conflicts
  - 9/11
  - Christmas airplane bombing attempt
- Natural disasters:
  - Katrina
- Our conviction to the financial markets has been challenged due to:
  - Corporate accounting scandals – Enron, World Com and others
  - The Credit Crisis
    - Demise of some long standing financial institutions: Lehman Brothers, Bear Stearns, etc.
    - Sub-prime loans, credit default swaps, etc.
    - Bank bailouts followed by large bonus pools
  - Ponzi Schemes e.g. Mr. Madoff, Sir Allen Stanford, etc.

Is it any wonder the S&P 500 has experienced its first “loss decade” since the Great Depression? Many of you have probably been reading or heard on talk shows that if you had invested in the stock market over the last ten years, your portfolio has gone absolutely nowhere or maybe even backwards. For example, you may have heard that \$100 invested in the S&P 500 on January 1, 2000, shrank to approximately \$90 ten years

later for an annualized total return of -0.95%. And that includes dividends. While this is true, it is important to remember that none of our clients are purely invested in the S&P 500.

The events of the last ten years have reinforced to us the importance of broad diversification. To illustrate the benefits of diversification, we have put together a simple chart that shows the results of three different portfolios over the ten year period January 1, 2000 to December 31, 2009:

1. One invested simply in the S&P 500;
2. A Blended Global Equity Portfolio; and
3. A 60-40, Global Equity-Fixed Income Portfolio.



As the chart shows, if you had invested \$100 in a Blended Global Equity portfolio (60% Russell 3000, 40% EAFE) on January 1, 2000, instead of investing in the S&P 500, you would have had approximately \$104 on December 31, 2009 – an additional \$13 or a 15% improvement over the S&P 500 investment. Now had you diversified the portfolio further by investing 40% of your assets into fixed income and 60% into the Blended Global Equity allocation (as outlined above), you would have accumulated approximately \$142 on December 31, 2009 - an additional \$51 or 56% more than the pure S&P 500 investment.

In addition, the volatility of returns is significantly reduced with the 60/40 equity/bonds portfolio (look at the peak to trough points for each line shown in the graph). While we

agree these returns are not overly impressive, the graph does show the benefits of holding more than just the S&P 500.

### **Important Tax Return Info:**

To assist you in preparing your 2009 tax returns, we have included two additional reports:

- Realized capital gains and losses for your taxable accounts - to be used to complete your 2009 tax return in lieu of the cost basis information on the form 1099-B provided by your custodian. Note, however, that if you have previously elected another cost-basis method (e.g. average cost) when selling a specific security prior to 2009, you may need to continue to use that method. Please consult with your tax advisor or call us to discuss if you are uncertain about your specific situation.
- Investment expenses for each account - if your fees were paid from a taxable brokerage account (i.e. not a Roth IRA or Traditional IRA), these fees may be deducted on your tax return as a miscellaneous itemized deduction. If you have questions about their deductibility, please check with your tax advisor or call us.

If you have a taxable brokerage account, you should also receive a 1099 from Schwab with the investment income data you or your tax advisor need to complete your 2009 tax return.

We have also provided this information to those of you for whom we prepare tax returns so you can keep it with your tax records for future reference.

### **Wrap Up:**

We thank you for your continued confidence in our firm and we look forward to working with you in what we hope will be a great 2010. We value your feedback and would be interested in hearing how we can improve our service. Please feel free to e-mail us at [info@fhwealthadv.com](mailto:info@fhwealthadv.com) or call us directly with any suggestions.