ROCKWOOD WEALTH MANAGEMENT

Greatest Lessons of the Great Recession

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Introduction

The steep stock market declines experienced during the Great Recession ignited a flurry of deliberation among industry professionals and the financial media. Like engineers picking through the rubble after a building collapse, they attempted to uncover what could or should have been done differently to prevent the massive loss of investor wealth.

Some were motivated by a genuine desire to understand the root causes of what happened and what it meant for the future. Others saw it as an opportunity to challenge conventional wisdom and long-standing academic theories in an attempt to get attention or even to sell investment ideas.

The more extreme the pronouncement, the more buzz it generated. Some even went as far as to proclaim the death of Nobel-Prize winning Modern Portfolio Theory and its associated financial principles, such as diversification and buy-and-hold investing.

"Is Markowitz Wrong?" was plastered in giant letters across the January 2009 cover of the *Journal of Financial Planning*. The article declared "Traditional asset allocation is losing its credibility"… and claimed that the traditional benefits of diversification evaporated during 2008's steep market declines.

In the February 16, 2009 edition of *Barron's,* in an article on *Modern Portfolio Theory Ages Badly: The Death of Buy and Hold*, author Mike Hogan asserted that "markets are likely to be too erratic in the future to rely only on nicely structured portfolios and economic growth." He also contended that investors today need to be more "tactical" in their moves — moving in and out of investments more quickly.

These kinds of claims may be provocative, but they do not hold up well in light of the available evidence.

With this in mind, let's look at what we believe the evidence suggests were the real lessons of the Great Recession and what they mean for long-term investors:

1. Don't let emotions drive investment decisions
2. Don't try to time the markets
3. Active managers do not outperform in bear markets
4. Diversification still works
5. Don't take risks in fixed income
6. Rebalance your portfolio regularly
7. Protect yourself against financial fraud
8. There is no better alternative to buy-and-hold investing

Lesson 1: Don't Let Emotions Drive Investment Decisions

"Don't just do something, stand there….The worst time for action is a period of distress — those are periods when we make mistakes."

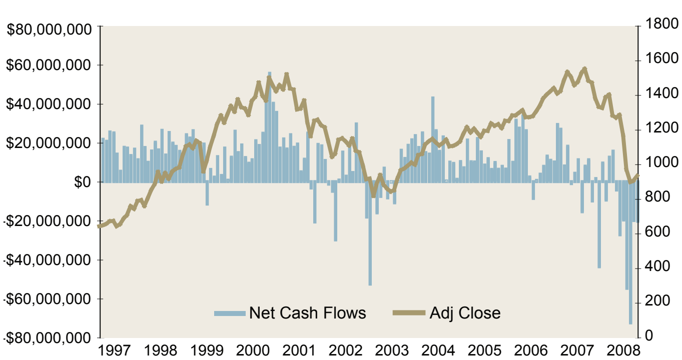
— Charles D. Ellis, *author of "Winning the Loser's Game" and Chairman, Yale University Investment Committee.*

Letting your emotions guide the way you invest can have detrimental consequences for your portfolio, including dramatic underperformance. It is easy to understand how this happens. Our instincts tell us we have to do something *now*. Indeed, studies have shown that, time and again, investors tend to invest according to recent performance. When the stock market is going up, emotionally, we tend to believe it will continue to go up, and we are driven by the desire to buy. When the market goes down, we are afraid it will continue to decline, and our fear causes us to want to sell.

The chart below demonstrates this by overlaying mutual fund returns (the bronze line) with fund inflows and outflows (blue bars) during the last decade. Money poured in *after* periods of good returns when prices were high, with inflows reaching a record level just before the crash in 2000. Then, as prices came down, money flows slowed dramatically as fearful investors became more cautious close to the bottom in 2002, just before the market's dramatic rise in 2003. The same pattern of outflows occurred during the market decline in 2008.

Buying High, Selling Low

January 1997 through December 2008



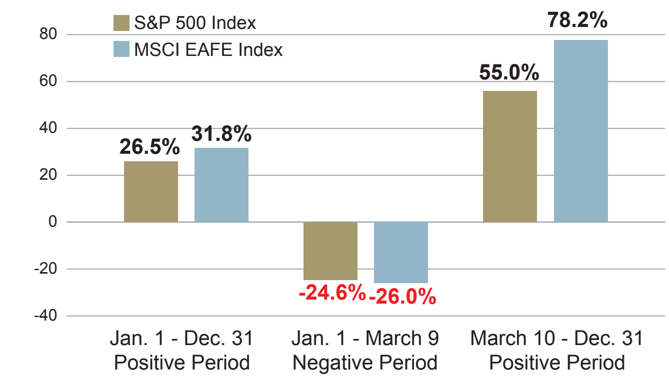
Market performance in this example is represented by the S&P 500 price index. Net cash flow data for equity funds is from the Investment Company Institute. An investment cannot be made directly in an index.

Some investors think they will be able to recognize when the recovery has taken hold and they can safely get back in to the market. But historically, market recoveries have occurred unexpectedly. We saw this in 2002 and again in 2009, with what were, in retrospect, strong bull markets that began without warning.

This is the nature of stock investing. Gains may come in powerful upsurges against a backdrop of discouraging financial and economic news. As the March 2009 rally demonstrated, a surprise rebound may frustrate investors who are waiting for a clear signal to return to the market.

Returns for 2009

As of December 31, 2009



Data Sources: S&P 500 Index data are provided by Standard & Poor's Index Services Group, MSCI Index data provided by Morgan Stanley Capital International Group Inc. www.mscibarra.com (October 2009). Indexes are unmanaged baskets of securities in which investors cannot directly invest. Actual investment results may vary. All investments involve risk, including loss of principal. Past performance is not indicative of future results.

The graph above illustrates the 2009 returns of the S&P 500 Index, (representing U.S. large cap stocks) and the MSCI EAFE Index (representing international stocks). The first set of bars represents the returns for the full year of 2009. The second and third bars represents the returns over two distinct periods during the year — a negative return period from January 1 to March 9, and a subsequent positive return period from March 10 to the end of 2009.

Investors who sold out of the equity market in early March for the safety of cash may have locked in losses of approximately 25% for the year, and may have missed out on a 55% U.S. stock market rebound (as measured by the S&P 500 Index). The results are even more dramatic for international stocks, as measured by the MSCI EAFE Index, with losses of 26% early in the year and a rebound of 78% in the latter part of the year.

Of course, a brief period like this may not signal the start of a new bull market. But recent history does serve as a reminder of how suddenly a major turnaround can begin.

It's important for investors to consider remaining *in* the market — even when their emotions tell them otherwise — to potentially benefit from an eventual market recovery and to be positioned to capture positive performance when it occurs.

Lesson 2: Don't Try to Time the Markets

Successful market timing requires overcoming two timing hurdles — knowing when to sell and when to buy. So you must be right twice every time you market time.

To illustrate the difficulty of getting the timing decision right, let's take a look at the best and worst days in the S&P 500 over the last four decades.

With the remarkable daily volatility experienced in 2008, half of the worst ten daily declines (in percentage terms) since 1970 occurred in 2008. But surprisingly, 2008 can now also claim six of the best daily returns (in percentage terms). This is a powerful example of how difficult it would be to successfully time the market to miss the worst days, yet participate in the all important best days.

Best and Worst Days in the U.S. Stock Market

S&P 500 Index, January 1, 1970 through December 31, 2009

WORST TEN DAYS

Date	One-Day Return%
Oct-19 '87	-20.47%
Oct-15 '08	**-9.03%**
Dec-01 '08	**-8.93%**
Sep-29 '08	**-8.81%**
Oct-26 '87	-8.28%
Oct-09 '08	**-7.62%**
Oct-27 '97	-6.87%
Aug-31 '98	-6.80%
Jan-08 '88	-6.77%
Nov-20 '08	**-6.71%**

BEST TEN DAYS

Date	One-Day Return%
Oct-27 '08	**11.58%**
Oct-28 '08	**10.79%**
Oct-21 '87	9.10%
Mar-23 '09	7.08%
Nov-13 '08	**6.92%**
Nov-24 '08	**6.47%**
Mar-10 '09	6.37%
Nov-21 '08	**6.32%**
Jul-24 '02	5.73%
Sep-30 '08	**5.42%**

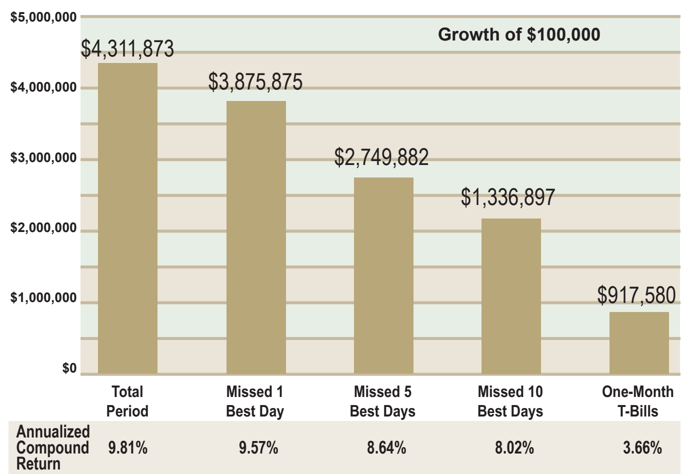
Source: Yahoo Finance (January 2009)

Getting the timing decision wrong can have a serious impact on your future returns or wealth accumulation. As the historical growth chart shows below, missing even a few of the best days of the market may defeat a market timing strategy. If you had invested $100,000 in 1970 in the S&P 500 Index and remained invested through the end of 2009, it would be worth $4,311,873. Missing the ten best days (eight of which occurred in 2008 and 2009) would have cut returns by almost half to $2,125,072.

Even if you had missed just one day — the single best day — on October 27, 2008, you would have made more than a $435,000 mistake.

"Time In" vs. "Timing"

Performance of the S&P 500 Index
Daily: January 1, 1970-December 31, 2009



Performance data for January 1970-December 2009 provided by CRSP (January 2010). The S&P data are provided by Standard & Poor's Index Services Group. CRSP data provided by the Center for Research in Security Prices, University of Chicago. US bonds and bills data ©Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Indexes are not available for direct investment. The data assumes reinvestment of income and does not account for taxes or transaction costs. Past performance is not a guarantee of future results. There is always the risk that an investor may lose money.

Lesson 3: Active Managers Have Not Outperformed in Bear Markets (or Bull Markets)

Wall Street has a notoriously bad forecasting record. In fact, Wall Street's consensus forecast has failed to predict a single recession in the last 30 years.[1]

While a few economists have claimed to have foreseen 2008's troubles, most pundits were as surprised by what happened as the rest of us.

Every January, *USA Today* asks top investment strategists to offer up their outlook for the year ahead, including where they think the S&P 500 will end the year. Many of the forecasts made for the markets at the beginning of 2008, turned out to be quite optimistic. In fact, all of them forecast an up market. Similarly, at the end of 2007, New York newspaper *Newsday* sampled "eight major Wall Street Securities firms" and came out with an average price target for the S&P 500 by the year-end 2008 of 1,653, representing a 12 % rise on the previous year.[2]

We now know the S&P500 Index declined by 37% for the year 2008. The S&P 500 began the year at 1468 and ended at 903. The most pessimistic strategist was off by more than 600 points...and none of *USA Today's* or *Newsday's* strategists even predicted the down direction of the market correctly.

If experts can't even predict recessions or the direction of the markets, how can we expect active managers to successfully pick individual stocks whose performance is so sensitive to economic and market conditions?

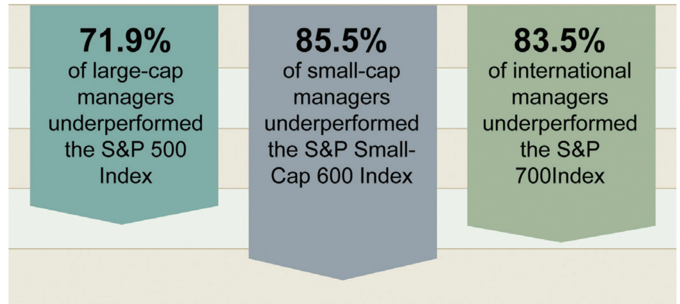
Active managers attempt to outperform an index, such as the S&P 500 Index, by actively trading individual stocks and/or engaging in market timing — deciding when to be in and out of the market. Many investors believe that active managers earn their keep in bear markets, because they avoid losses by hand-picking superior individual stocks or by shifting out of stocks altogether before steep market declines occur.

Standard and Poor's has been measuring the performance of active managers against their index counterparts for several years now. Their May 2009 *Indices Versus Active Funds Study* specifically focused on the bear market of 2008 and concluded that "the belief that bear markets favor active management is a myth."

In the same study, Standard and Poor's identified similar results for the 2000 to 2002 bear market. In this bear market and the one in 2008, a majority of active funds underperformed their respective S&P Index benchmarks for all U.S and international equity asset classes. In aggregate in 2008, actively managed funds underperformed the S&P 500 Index by an average of 1.67%.[3]

In addition, the study concluded that over a full market cycle for the five years ending December 31, 2008, the S&P 500 Index outperformed 71.9% of actively managed large cap mutual funds, and the S&P Small Cap 600 Index outperformed 85.5% of actively managed small cap funds. The results were similar for international funds, with the S&P 700 Index outperforming 83.5% of international funds.[4]

Active Mutual Fund Manager 5-Year Performance
from 2004 – 2008

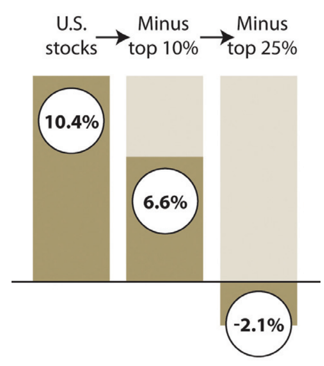


Source: Standard and Poor's Index Versus Active Group, April 2009 (For the period 1/03 – 12/08). Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. The aggregate fund returns are an equal-weighted average of all funds within each category. Individual funds used are net of fees, excluding loads. The data assumes reinvestment of income and does not account for taxes or transaction costs. Past performance is not a guarantee of future results.

Whatever the markets are doing, active managers are further challenged by the fact that the performance of individual stocks can differ greatly — even though stocks collectively have historically provided strong returns over long investment horizons.

From 1980-2008 the U.S. stock market generated an annualized return of 10.4% (using the University of Chicago's CRSP total market equity database to represent the U.S. market). Surprisingly, all of the market's gains were produced only by the top-performing 25% of stocks. During the same period, the remaining 75% of the stocks in the total market database collectively generated a loss of -2.1%. This example demonstrates the difficulty in selecting the individual stocks that will perform better or even in-line with the broad equity market.

Annual Total Returns
1980 - 2008



Note: Figures are based on the University of Chicago's CRSP Database of Total U.S. Stock Market. Source: Dimensional Fund Advisors. Past performance is not indicative of future results. Indexes are unmanaged baskets of securities in which investors cannot directly invest. The data assume reinvestment of all dividend and capital gain distributions; they do not include the effect of any taxes, transaction costs or fees charged by an investment advisor or other service provider to an individual account. The risks associated with stocks potentially include increased volatility (up and down movement in the value of your assets) and loss of principal. Small company stocks may be subject to a higher degree of market risk than the securities of more established companies because they tend to be more volatile and less liquid.

Attempting to enhance your returns by seeking out the needles in the haystack introduces an additional layer of active risk and the potential for increased volatility. A portfolio of even the most carefully chosen stocks could easily wind up with none of the best-performing stocks in the market — and thus could possibly produce flat or negative returns for many years. As the Standard and Poor's study of active managers versus indices shows, very few managers are accomplished stock pickers.

According to an article, Are stocks a loser's bet?, by William J. Bernstein in the May 2009 issue of *Money Magazine*, the only way you can be assured of owning all of tomorrow's top-performing stocks is to own the entire market.

Lesson 4: Diversification Still Works

Diversification has long since been considered an essential tool for those seeking to minimize their risk in a volatile market. The goal is to smooth out returns and to help protect portfolios against big losses on single investments or asset classes.

Some pundits have argued that the traditional benefits of diversification evaporated during 2008's steep market declines.

We believe, to the contrary, that the recent market downturn actually provided a powerful example of the true benefits of diversification.

Perhaps the greatest success story for diversified strategies in 2008 was the inclusion of high-quality fixed income investments to dampen portfolio volatility. As intended, high-quality fixed income investments proved a valuable stabilizer to portfolios during the crisis period.

In fact, without some balance and broad exposure to high-quality fixed income, a portfolio's losses might have been much more severe. While everything else plunged in 2008, U.S. Treasury bonds did what they were supposed to do — maintain their value — and they even delivered handsome returns because investors' flight to quality increased the demand for (and thus prices) of Treasury bonds. During these periods of panic, it can sometimes seem as if there are only two asset classes — U.S. Treasury bonds and "everything else."

U.S. and International Market Indexes

2008 Annualized Returns

	One Year %
MSCI Emerging Markets Index	-53.3
MSCI EAFE Small Cap Index	-46.8
MSCI EAFE Value Index	-44.1
Dow Jones Wilshire REIT Index	-39.2
Russell 1000 Growth Index	-38.4
Dow Jones Wilshire 5000 Index	-37.3
S&P 500 Index	-37.0
Russell 1000 Value Index	-36.9
Russell 2000 Index	-33.8
1-5 Year Treasury/Agency Index	8.37

Data Sources: S&P 500 Index data are provided by Standard & Poor's Index Services Group, Russell Index data provided by The Russell Company, www.russell.com; MSCI Index data provided by Morgan Stanley Capital International Group Inc. www.mscibarra.com (January 2009). Indexes are unmanaged baskets of securities in which investors cannot directly invest. Actual investment results may vary. All investments involve risk, including loss of principal. Past performance is not indicative of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting.

It is easy to understand the frustration many felt as all stock markets declined in 2008. Isn't diversification designed to prevent such simultaneous plunges? Unfortunately, the answer is, "No."

There is a historical tendency for equity assets classes to move in the same direction during periods of extreme market volatility. Spikes in asset correlation — periods during which ordinarily low-correlated asset classes become highly correlated and move in lock-step — are nothing new. These spikes have tended to crop up during times of extreme market stress, like October 2008.

It is important to understand that risk can't be eliminated — not even through diversification — it's the price we pay for potential return.

Diversification is intended to minimize the possibility that any single risk exposure, or combination of exposures, will devastate a portfolio.

Another aspect of diversification that worked beautifully in 2008 was the avoidance of substantial losses from the many individual headline securities. Investors with significant concentration or exposure to certain companies, like Fannie Mae, Freddie Mac, AIG, Lehman Brothers, may have suffered substantial or even total losses.

In a market like 2008, concentrating on a single stock was a potential invitation to catastrophe.

We can entirely reframe the success versus failure of diversification simply by taking a longer-term perspective.

The table below shows returns for each asset class over the last decade, the so-called "lost decade" for equities. While the cumulative return for the S&P 500 Index was negative for the decade, positive returns were generated in value and small cap asset classes, both in U.S. and international markets.

U.S. and International Market Indexes

10-Year Returns (January 1, 2000 through December 31, 2009)

	Cumulative Return
Russell 1000 Growth Index	-33.4
S&P 500 Index	-9.1
Dow Jones Wilshire 5000 Index	-1.7
Russell 1000 Value Index	27.6
Russell 2000 Index	41.2
MSCI EAFE Value Index	48.7
MSCI EAFE Small Cap Index	94.3
MSCI Emerging Markets Index	154.3
Dow Jones Wilshire REIT Index	175.6

Data Sources: S&P 500 Index data are provided by Standard & Poor's Index Services Group, Russell Index data provided by The Russell Company, www.russell.com; MSCI Index data provided by Morgan Stanley Capital International Group Inc. www.mscibarra.com (January 2010). Indexes are unmanaged baskets of securities in which investors cannot directly invest. Actual investment results may vary. All investments involve risk, including loss of principal. Past performance is not indicative of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting.

Most importantly, there is a wide range of returns generated from each of the asset classes over the ten year period. A diversified portfolio with representation from each of these asset classes would have performed much better than a single asset class investment in U.S. large cap equities, as measured by the S&P 500 Index, during this period.

Lesson 5: Don't Take Unnecessary Risks with Fixed Income

Prompted by the low-interest rate environment that preceded 2008, some investors began to stray from high-quality fixed income in an effort to increase income yields or enhance returns in the fixed income component of their portfolio. Many investors do not fully understand the risks in fixed income investments and often believe that all fixed income is "safe."

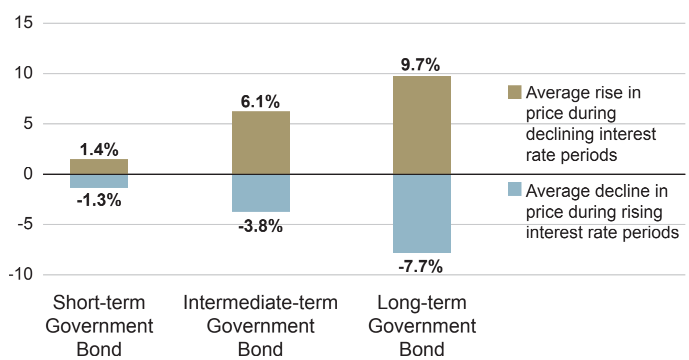
Unfortunately, the credit risks in fixed income become more apparent during bear market periods, and they became even more so during the Great Recession because of the severe credit and liquidity crisis that occurred. Fixed income investments with any degree of credit risk suffered significant price declines, along with the equity markets.

In addition to credit and default risk, a bond's riskiness and performance potential are also closely tied to its maturity. The longer a bond's maturity, the more its price will move when interest rates rise or fall. During the extreme market environment of the Great Recession, long-term Treasuries generated the highest returns because interest rates declined sharply as investors sought the safe haven of U.S. government bonds. But it is important to remember that long-term bonds will generally suffer the most when interest rates rise.

This graph illustrates the relationship between the length of a bond's maturity and its sensitivity to interest rates. The greater a bond's maturity, the greater the maturity risk.

Fixed Income Maturity Risk

1970 - 2008



Short-term government bonds are represented by the one-year U.S. government bond for 1970–2008. Intermediate-term government bonds are represented by the five-year U.S. government bond and long-term government bonds by the 20-year U.S. government bond. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs. For the annual periods 1970 through 2008, each year was categorized as a year when yields rose or a year when yields fell. The price changes during all years when yields rose were then averaged. The same was done for years in which yields declined. The price change was isolated, as opposed to the total return, so that the effect would be more pronounced.

From 1970 - 2008, shorter maturity bonds were relatively insensitive to movements in interest rates, dropping an average of –1.3% when interest rates rose and gaining an average of 1.4% when interest rates fell. Bonds with longer maturities were the most sensitive, dropping an average of –7.7% when interest rates rose and gaining an average of 9.7% when interest rates fell.

We believe the primary role of bonds in a long-term portfolio is to reduce the portfolio's overall volatility. That is why we recommend high-quality, short-term fixed. We believe that other fixed income instruments do not offer an attractive risk reward profile over longer periods of time.

Bonds and fixed income funds will decrease in value as interest rates rise.

Lesson 6: Rebalance Your Portfolio Regularly

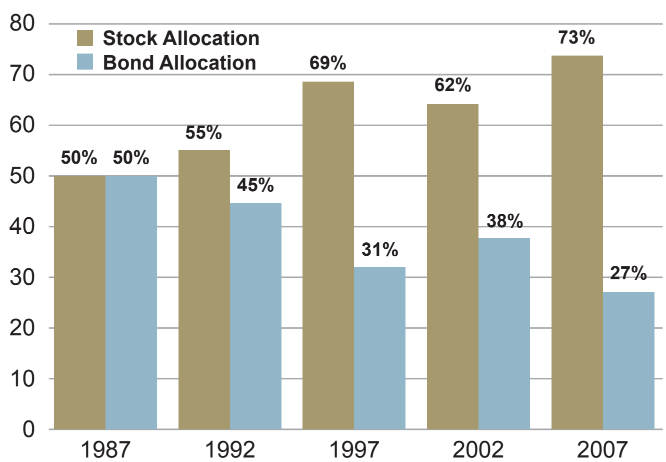
Rebalancing should be a part of any investor's long-term portfolio: it helps ensure that your portfolio remains aligned with your goals and risk tolerance. Because of the movements in markets, portfolios tend to change or "drift" over time and move away from their original asset allocation — unless they are rebalanced.

Asset classes associated with high degrees of risk tend to have higher rates of return than less volatile asset classes. For this reason, a portfolio that is not rebalanced periodically may become more volatile (riskier) over time. So rebalancing may help to minimize the losses from bear markets.

Please note, there may be tax consequences associated with rebalancing a portfolio.

Impact of Not Rebalancing

1987- 2007



Past performance is no guarantee of future results. Stocks: 50% large and 50% small stocks. Data is represented as of year-end 1987. Bonds: intermediate-term bonds. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. 3/1/2009.

This chart illustrates the effect of different growth rates on a static (unbalanced) portfolio over a 20-year period. In 1987, the target asset mix began with a 50% allocation to stocks and a 50% allocation to bonds. The proportion of stocks in the portfolio grew modestly up through 1997 when it accounted for 69% of the portfolio. By 2007, stocks accounted for 73% of the portfolio. Losses on the more aggressive asset mix would have been even more severe, by approximately 10.5%, than on the original portfolio allocation.

Rebalancing will not benefit your portfolio every time or in every market environment, but diligent rebalancing on a set schedule can help keep emotions out of the process. For most people, it may make only a marginal difference. But unless you're really good or really lucky at calling turning points in the business cycle, then it is probably the best you can do. However, it will help ensure that your portfolio stays close to your stated risk tolerance so that you aren't taking less, or more, risk that you are comfortable with.

Lesson 7: Protect Yourself from Financial Fraud

Economic crises tend to uncover investment frauds and deceptions that might otherwise have remained hidden. The prototypical example of this is Bernie Madoff's elaborate Ponzi scheme, which came to light when the downward pressures of the market made his deception (which relied on constantly bringing in new money) unsustainable.

While many of the world's largest banks and hedge funds missed the warning signs, Madoff engaged in many practices that would have alarmed the average prudent investor, including not revealing his trading strategy and claiming consistent returns year after year.

There are a few preventative measures investors can take to prevent becoming victims of this type of financial fraud:

Transparency of Strategy and Holdings

Lack of transparency is one of the biggest risks of investing in private investment vehicles. It is often difficult to know exactly how or even where your money is invested.

Asked in 2001 by a reporter from *Barron's* magazine how his "split-strike conversion" strategy managed to avoid ever having a down year in over a decade, Madoff said: "It's a proprietary strategy. I can't go into it in great detail."

Independent Oversight

Audits verify a money manager's financial statements, as well as confirm that reported investments are held and trades actually made. Madoff sidestepped this by hiring a largely unknown accounting firm, reportedly controlled by his brother-in-law, to conduct annual audits.

This familial relationship should have disqualified the firm from acting as an independent auditor, but for fifteen years it also told its own oversight body — the American Institute of Certified Public Accountants — that it did not conduct audits.

Invest in Mutual Funds — Highly Regulated Securities with Readily-Determined Valuations

It is noteworthy that many of the failed Ponzi schemes and frauds that were uncovered during the crisis (Madoff, Stanford, Phillip Barry) were in investment products other than registered investment companies — known as mutual funds.

Unlike unregistered investment products, a mutual fund is one of the most highly-regulated investment products.

- The mutual fund itself is registered with the SEC as an investment company under the Investment Company Act of 1940.
- A mutual fund can only be advised by an investment advisor registered with the SEC pursuant to the Investment Advisors Act of 1940.
- The shares of a mutual fund are generally securities themselves registered with the SEC pursuant to the Securities Act of 1933 and regulated per the Securities and Exchange Act of 1934.

Also, mutual funds have ticker symbols through which valuations can be determined quickly and easily, either by calling a financial advisor, typing in the ticker into a financial website, or looking in a newspaper. More complex securities, like mortgage-backed securities, derivatives, and private placements are not always easy to evaluate and price and can be sources of abuse.

Adhering to the above rules of thumb can be a great help in avoiding the kind of challenges now facing many of Madoff's clients. Remember: there are no free lunches. If an investing opportunity sounds too good to be true... be very, very cautious and skeptical.

Lesson 8: There is No Better Alternative to Buy-and-Hold Investing

Before abandoning academic and time-tested strategies such as buy-and-hold investing, investors should understand that there is very little empirical evidence that suggests a better alternative.

While buy-and-hold investing can be painful and frustrating and difficult to stick to during extreme volatility, everything we know about investment theory and practice suggests that staying the course will remain an effective approach long after those proclaiming the death of buy-and-hold have disappeared.

With the benefit of hindsight, we can now reflect on the performance of the market over the past fifteen months, ending December 31, 2009, and gain perhaps a more temperate and rational perspective. Despite all of the anguish investors experienced during the one-year period October 2008 through September 2009, a period which encompasses both the substantial declines of October and November of 2008 and the dramatic declines of February and March of 2009, the S&P 500 Index was down less than 7%. And international markets, which suffered the steepest declines during the bear market, were positive for the one-year period (as measured by the MSCI EAFE Index return of 3.2%). Therefore, a globally-diversified equity portfolio with 60% domestic and 40% international would be down less than 3% for the year. Add a 40% fixed income allocation (as represented by Citigroup World Government Bond 1-5 Year Hedged Index) to this mix to create a balanced portfolio of both stocks and bonds, and returns were positive by 0.5% for the year. Move forward just three months to the end of December 2009 and one year returns for the same balanced portfolios was 18.1%. Of course, past performance is not indicative of future results.

At times during the financial crisis, the news seemed very bad. Some investors feared that the global economic crisis was turning into a catastrophic meltdown. Banks failed. Large companies and even one country (Iceland) went bankrupt. Governments took unprecedented steps to intervene. And the financial media stoked the panic with dire predictions. Some even thought that the capitalist system was going to collapse.

Yet after all the uncertainty, angst, gut-churning market drops, government bailouts, ubiquitous bad news and media fear mongering, all the worried, sleepless nights so many investors experienced, a globally diversified equity portfolio (with 60% S&P 500 Index and 40% MSCI EAFE Index) was down less than 3% from September 2008 to September 2009.

This may be the clearest demonstration many of us will see in our lifetimes of why we should try to focus beyond the short-term gyrations of the markets on the long-term potential of a broadly-diversified portfolio to help us achieve our investment goals. That is perhaps the greatest lesson of the many invaluable lessons of the Great Recession.

Buy-and-hold investing cannot guarantee a profit or protect against a loss. Diversification does not guarantee a profit or protect against a loss.

As difficult and painful as the Great Recession proved to be, it taught us many valuable lessons that should help us to better navigate through future market turmoil.

The greatest lessons learned from the Great Recession only reinforce the principles of our *Structured Investing* philosophy with its focus on discipline, diversification and reason.

- Don't let your emotions drive investment decisions. Doing so may have cost you more over the past year.
- Don't attempt to time the markets. Few professionals money managers have done it successfully and consistently.
- Spread your nest egg across a mix of different asset classes — and diversify broadly within each asset class.
- Don't take unnecessary risks in your fixed income investments. The role of fixed income is to provide stability and dampen the volatility of your equity portfolio.
- Rebalance whenever a part of your portfolio gets too far out of whack, even when doing so may seem uncomfortable.
- Avoid fraudulent investments by insisting on transparency and independent oversight.
- There was no alternative strategy to buy-and-hold that would have saved investors in 2008, and there is scant empirical evidence supporting a better long-term alternative.

Finally, be sure to work with a trusted independent, fee-only advisor who acts as your advocate and helps you execute your investment plan prudently and diligently.

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[1] "As Unemployment Growth Slows, a Recovery Could Stir" by David Leonhardt, The New York Times (May 5, 2009)

[2] 2008 Outlook for Investors', Newsday, (December 31, 2007)

[3] Standard and Poor's May 2009 Indices Versus Active Funds Study

[4] Ibid.