

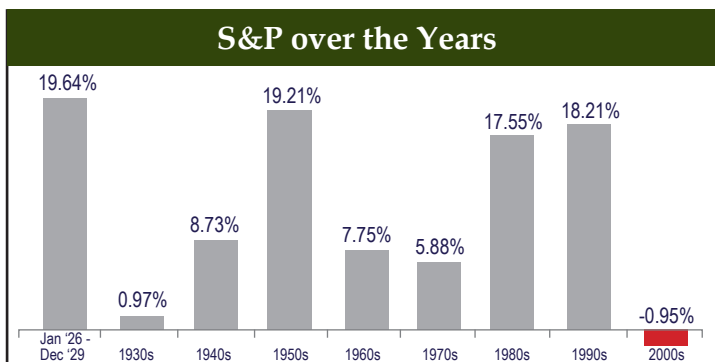


FINANCIAL IQ

Independent Advice. Intelligent Financial Solutions.

The 00's... The Lost Decade for Stocks... Or Was It?

Wow! What a ten year period we've all just been through. September 11 and the dot-com bust on one end and the demise of Fannie, Freddie and much of the financial industry on the other formed the framework for book-end bear markets...with the Iraq and the Afghan wars providing the filler. In the end, 2008 gave us the second worst stock market year on record, and by the end of 2009, the worst ten year calendar decade ever...and yes, a decade even worse than the 10 year period surrounding the Great Depression (1/1/28 - 12/31/37). See chart.



The S&P 500's annual total returns. Source: Standard & Poor's Indices

But, despite all the gloom and doom, there was a sliver of good news. Thanks to the pleasant surprise of the market resurgence in 2009, coupled with the tenacity of our clients and their willingness to stay the course, we survived everything the markets threw at us...bent but not broken, and ready to see what the next ten years hold. Actually, what was most interesting was that most of our clients who were with us for the entire decade actually did surprisingly well during this period...proving once again that the combination of an investment philosophy that continues to withstand the test of time and a steadfast group of clients who believe in what we do will eventually win out.

Just before year-end, the Wall Street Journal ran a headline posing the question "The Lost Decade for Stocks?", pointing out that at year-end 2009, the most meaningful barometer of stock market performance, the S&P 500, would actually show a negative total-return for the entire last decade! That's pretty amazing stuff, almost hard to believe when you consider that we're talking about an index made up of 500 of the biggest and best companies that America has to offer. But in the end, it turned out to be true.

If we dig a little deeper, however, we see that there's more to this story than meets the eye...and it lies in the fact that no matter how you cut it, the S&P 500 is not a truly diversified portfolio. Remember, for starters, it holds only U.S. stocks and, for the most part, only large U.S. stocks. In addition, in a world where the U.S. stock market contains significant exposure to

small cap stocks and where international stocks represent over half the total world stock market capitalization, the S&P alone just doesn't measure up. Look at the chart below. It shows the total return of both the S&P 500 and Plancorp's globally diversified all-equity portfolio for the period 1/1/00 - 12/31/09...the 10 year period just ending. You'll notice that while the S&P produced a negative return during that period, the Plancorp all-equity portfolio showed a gain, actually outperforming the S&P 500 by a rather significant 639 basis points on an annual basis. More interestingly, the Plancorp portfolio made up of 60% equities and 40% fixed income actually produced a return even greater than that of either the S&P 500 or the Plancorp all-equity portfolio...and it did it with only about 60% of the risk.

The Lost Decade For Stocks?

Returns ending December 31, 2009

	1 Year	5 Years	10 Years	Std.
S&P 500	26.46%	0.42%	-0.95%	16.13%
Plancorp All-Equity	33.91%	2.10%	5.44%	17.87%
Plancorp 60/40	21.42%	3.44%	5.60%	10.43%

Plancorp portfolio returns are net of mutual fund fees but gross before Plancorp's management fee. Assumes dividend and capital gain distributions are reinvested.

This phenomenon truly exemplified what an upside-down period this was. Keep in mind that over long periods of time, stocks are expected to win out over bonds. This is not only basic common sense, but also one of the most fundamental tenets of investing: returns come from taking risk. Investors demand to be compensated for the risks they take, and if over time they're not, if instead T-bills produce better returns (with virtually no risk) than equity markets do (with risk), then the incentive for equity investors to continue to invest would simply dry up.

And equity markets, the most efficient capital raising mechanism on earth, would basically shut down. An unlikely doomsday scenario? We certainly think so. We would prefer instead to look at this whole picture going forward as one where the glass is half full rather than half empty. We're hopeful that over time, equity prices will experience a reversion to the mean and eventually produce returns that will bring the markets' historical averages back to their more normal levels. But as we all know, markets have a way of doing their own thing, and trying to predict outcomes is difficult at best.

A Newfound Respect for Risk

One of the lessons we learned from the recent bear market, however, is that most investors today have developed a whole new outlook towards risk. Talking about risk and running asset allocation models with risk and return parameters is one thing...experiencing risk first hand in the marketplace is quite another. For most investors, this past bear market was very difficult to swallow, and a repeat of that could, in all probability, push them to the limit. That's why it may be an appropriate time for all investors to rethink their current asset allocation to determine whether it still makes sense for them.

One common sense piece of advice all investors might want to consider relative to their own risk tolerance comes to us from The Oblivious Investor, an excellent, investor-friendly website, which says:

"If you feel a need to check on your portfolio every day (or week, or month) because you're worried about how it's doing, perhaps you should listen to what a part of your brain is telling you: Your risk tolerance isn't what you thought it was! Remember, the exercise should not be...determine your asset allocation, then stick with it, but rather... determine an asset allocation that will allow you to stick with it."

It's Tough to Make Predictions... Especially About the Future

Yogi Berra sure had it right when he voiced that famous quote. It's unfortunate for the investing public that many of the so-called stock market prognosticators of the day don't heed his advice. Listed below is a sampling of what some rather well known analysts were saying about the prospects for 2009 in the stock market. We've eliminated their names to avoid any further embarrassment to them. Remember, March 9, 2009 was when the market hit its low point.

"...We believe that 2009 will be tougher than many anticipate...The world's first global recession is just getting started."

Wall Street Journal, January 23, 2009

"Don't be fooled by bear market rallies. It's way too early to get back into U.S. stocks..."

Forbes, February 16, 2009

"Equity bulls can argue that each fresh low brings the market closer to a bottom, but this has been a constant and increasing hollow refrain for more than a year."

Financial Times, February 25, 2009

"Just how low can stocks go?...As earnings estimates are ratcheted down and hopes for a quick fix fade, the once-inconceivable notion of returning to Dow 5000 or S&P 500 looks a little less far-fetched..."

Wall Street Journal, March 9, 2009

"Concern about the economy flared after billionaire investor Warren Buffet said in an interview on CNBC television that the economy has "fallen off a cliff"..."

Wall Street Journal, March 10, 2009

"When looking for a floor, the risk is that the roof caves in on top of you... Even if investors think it can't get any worse, the underpinnings of a sustained, healthy rally aren't in place yet."

Wall Street Journal, March 17, 2009

U.S. retail investors poured close to \$250 billion into bank accounts in the first months of this year, sharply accelerating a flight to safety as they continued to flee volatile stock markets."

Financial Times, March 26, 2009

New Looks

We are pleased to inform you that we will be introducing a new format for our quarterly reports starting with the December 31st mailed reports. Based on client feedback, these new reports will include some graphic illustrations of current and past portfolio values and be streamlined to, in most cases, dramatically reduce the number of pages. We look forward to reviewing these new reports with you in detail at your next client review meeting. In the meantime, if you have any questions, please do not hesitate to call your Client Service Representative.

Charles Schwab & Co. will also be introducing a new and improved monthly statement format starting with the February, 2010 statements. We will be sending out additional details about this in the coming weeks, but as always we would be happy to review these new statements with you if you have any questions.

Estate Tax Law Update

As most of you are aware, the estate tax was repealed at the end of 2009. It was thought that Congress would "patch" the law prior to the end of 2009, until they could deliberate on amending the old law or passing a new law. However, a patch did not arrive at the end of the year. Consequently, below are the basics:

- Both the estate tax and the generation-skipping transfer tax (on assets given to grandchildren) were repealed at the end of 2009.
- Both taxes are scheduled to return in 2011 at the unfavorable rates that applied 10 years earlier. The amount that is exempt from each of these taxes will then be \$1 million, and the tax on the rest will be 55%.
- There is still a gift tax if you give away more than \$1 million during your lifetime, but the tax rate has been reduced from 45% to 35%.
- Heirs will now have to use the original price paid for an asset when computing their tax liability, instead of the value upon the owner's death. This change away from the "step-up in cost basis" could be very expensive, and difficult, for heirs. Each estate can exempt \$1.3 million of gains from this carryover basis rule, as it's called. There is a \$3 million exemption that applies only to assets inherited from a spouse.

We are monitoring this situation very closely and are talking to a variety of estate planning attorneys in the area for their take on the situation. The conventional wisdom is that Congress will revive the estate tax and make it retroactive to January 1st, giving more certainty to the situation, but no one knows for sure if that will happen. We plan to discuss this in our upcoming client review meetings. However, if you have immediate concerns we encourage you to contact your estate planning attorney to see what action, if any, they recommend. As always, feel free to call us if you have any questions.