

## benchmark returns for the period ended December 31, 2009

		Annualized			
	<u>Quarter</u>	<u>1 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since 1/1/73</u>
US Treasury Bills	0.04	0.21	3.02	2.99	6.21
Lehman Brothers Corporate-Government Bonds	0.31	5.24	4.66	5.92	7.88
Standard & Poor's 500	6.04	26.46	0.42	-0.95	9.67
Russell 1000 Value (large cap value)	4.22	19.69	-0.26	2.47	NA
Russell 2000 (small cap)	3.88	27.17	0.51	3.51	NA
Morgan Stanley Europe, Australia and Far East (EAFE)	2.18	31.78	3.54	1.17	8.98
Wilshire REIT	9.15	28.60	-0.05	10.68	NA

## quarterly commentary

The market continued to advance in the fourth quarter, although at a slower pace than the second and third quarters. The Standard & Poor's 500 rose by 6% in the final three months of the year, bringing its annual return to 26%. In addition, the Dow Jones Industrial Average advanced 8% and 23% in the fourth quarter and on a calendar year basis, respectively. While the market may have gotten off to a rocky start, it's not how you start but how you finish.

Real estate, emerging markets and domestic large cap growth asset classes led the way in Q4'09. For 2009, emerging market and developed international asset classes outperformed our domestic markets. RCG portfolios advanced roughly 4% in Q4'09 and 34% for the year. Our portfolios benefited from both asset class diversification and a more focused exposure to small cap and value risk factors.

On the economic front, GDP advanced 2.2% in the third quarter of the year following four quarters of economic decline. The employment picture improved slightly as unemployment declined from 10.2% to 10.0%. U.S. nonfarm productivity (hourly output per worker) rose at an annual rate of 8.1%, the quickest rate since the third quarter of 2003. This figure follows the impressive 6.9% advance in Q2'09. The Consumer Price Index advanced 0.4% for the month of November, and over the last twelve months inflationary pressures have been somewhat muted as the index rose 1.8%. The combination of excess global capacity utilization and slack consumer demand have kept a lid on inflation so far, but once the economy is back on firmer footing inflationary pressures may exist. Until then, it appears that the Federal Reserve will maintain its accommodative monetary policy as the target federal funds range remains at 0 – 0.25%.

As mentioned, the pace of the market rally has slowed, but that isn't necessarily a bad thing. The VIX index - a measure of implied market volatility for the S&P 500 - is now back to a range in the low 20s. This is more or less in line with average historical levels. The index reached an all-time high in the 80s in the fourth quarter of 2008. Historically, lower levels of volatility have been associated with positive market environments. Additionally, lower volatility is more palatable for investors.

There has been some noise in the financial media indicating that now may be the time to reduce equity exposure as stocks are not likely to go much higher after the recent market advance. Most likely, the same opinions were circulated at the end of 1982, after the market rallied 21%. At that time the economy was coming out of a recession much like the one we are climbing out of today. In the fourth quarter of 1982, unemployment was running 10.8% and the economy had just rebounded from back-to-back quarters of significantly negative growth. Those individuals who recognized that patience and discipline were

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Source for returns: Dimensional Fund Advisors and Morningstar™ as 12-31-09.

essential to successful investing, and who remained fully invested, were rewarded with an annualized return of 18% per year over the next 17 years. While we're not suggesting that you should expect the same outcome today, historically over the last 80 years, every decade of poor or sub-par performance has been followed by a decade or more of above-average returns. Given that the ten year rolling average for the Standard & Poor's 500 is approximately -1% and the ten year rolling average for the international markets (as measured by EAFE), has advanced by a paltry 1%, it is not unreasonable to believe that stocks can continue to do well for the foreseeable future.

As we near the end of the first year of the current administration in Washington there is no shortage of pending landmark legislation. Whether you agree or disagree with current policy initiatives, issues like climate change/green energy, healthcare and financial re-regulation will have an impact on segments of the financial markets. Regardless of where the dust settles, winners and losers will likely emerge among specific industry groups. However, as an investor it is counter-productive to be concerned about issues that cannot be controlled or accurately forecasted. Focusing on controllable issues like structuring a globally diversified portfolio that will capture capital market returns regardless of geopolitical issues remains an effective strategy in achieving your financial goals.