

April 15, 2009

Client Name and Address

Dear Client:

Enclosed are performance reports for your investments at Charles Schwab as of March 31, 2009. Also enclosed are two Morningstar graphs which, we believe, merit your consideration:

### **REPORTS**

- The *Schwab Investment Portfolio* reports the value of your investments as of March 31, 2009.
- The *Portfolio Performance Review* illustrates the performance of your portfolios, net of fees, since the inception of opening your account and for the quarter ended March 31, 2009. Also illustrated is the performance of 5 major indexes and a portfolio benchmark for the same comparable periods.
- The *Position Performance Summary* illustrates the performance of your individual holdings during the period you have held the investments at Schwab.

### **MARKET COMMENTARY**

After a dismal 2008 in which U. S. stocks, as represented by the S&P 500 index, fell 37% we all hoped that 2009 would be better. And while it still may be, things certainly didn't start out that way as U. S. stocks fell 27.4% from January 2, 2009 through March 9, 2009. However, the S&P 500 rose 17.9% from March 9, 2009 through the end of March 2009 giving a glimmer of hope that the worse may be behind us.

Not all is doom and gloom. The cost of gasoline and other commodities has fallen dramatically since last summer. Mortgage interest rates are at or near record lows. Although U.S. home prices fell by the largest annual rate on record in January, there are a few bright spots with some depressed areas showing signs of price stabilization. The U. S. and several foreign governments have provided unprecedented fiscal and monetary stimulus to stabilize and grow the global economy at a time when consumers and businesses have significantly reduced their spending.

### **MORNINGSTAR GRAPHS AND HISTORICAL PERSPECTIVE**

In a few client discussions we have been asked whether it is prudent to own any stocks or directed to sell stocks in anticipation of getting back into the market when things settle down. While we don't know for sure what the next year or decade holds for us, we believe history has shown that investors who have invested when prices are low and the investing environment is hostile have fared well.

The compound annual return for the 10-year holding period 1/1/1999-12/31/2008 for the S&P 500 was -1.38%. This is the worst and only the 2<sup>nd</sup> time such return has been negative since 1/1/1926, a period covering 74 overlapping 10 year periods. Despite the abysmal performance of the past decade, large company stocks (S&P 500) have had a compound annual return of 9.6% since 1926 versus 3.7% for U.S. Treasury bills.

This brings up the subject of trying to time the market. *The Cost of Market Timing* graph illustrates that missing just the 10 best days in the market during the past 20 years would have reduced your return by over 41%. Even though 2008 was the worst year since 1931 for large company stocks, the S&P 500 had a 104 point increase (11.5%) on October 13, 2008. Missing this one day would have made a bad situation much worse.

The graph, *Hot-Hand Fallacy: Chasing Fund Performance*, highlights a troubling pattern of investor behavior. It has been known for years that the average individual investor's return in a fund has been far less than the returns reported by the fund. As the graph vividly illustrates, the average investor buys when prices are rising sharply and sells when prices are falling quickly. (As a reminder, the average annual return of the S&P 500 for the period 1995-1999 was 28.7% and for the period 2000-2002 was -14.4%). Thus, buying into a rapidly rising price environment and selling into a rapidly declining price environment can have serious detrimental consequences. We recommend that investors invest systematically over time in such a manner as to maintain their investment strategy.

### **OUR GENERAL RECOMMENDATIONS**

1. Be patient. If history is a guide, and we believe it is, better times for the stock market lie ahead.
2. Don't stop investing. Because we have planned together, you should have enough cash type investments to meet your short-term needs. The rest of your investments should be invested in stocks, bonds and cash in accordance with your longer-term plan.
3. Be concerned about inflation. Although inflation was a miniscule .1% for 2008, we believe it will return and exceed its long-term compound annual rate of 3%. Treasury inflation protected securities, real estate and commodities can be appropriate hedges to protect against inflation.
4. Be concerned about rising income tax rates. Rates for financially successful people will rise at both the federal and state level. It will be important to consider the effect of these rising rates on your investments. Thus, municipal bonds and stocks may provide more favorable after-tax returns than taxable bonds.
5. Continue to discuss your plans with us so that we can advise you on your asset and stock sector allocation strategy. Given the dramatic drop in equity prices, particularly in the financial and energy sectors as well as foreign emerging markets, it is more important than ever to rebalance.

### **FORM ADV, PART II**

The Investment Advisors Act of 1940 requires that at least once a year we offer and make available to our clients Part II of our Form ADV. This document gives information and background about Filomeno Wealth Management, LLC and its advisors. Please let us know if you would like to receive a copy of this document.

### **THANK YOU**

We recognize that our success is directly attributable to how well we serve you and thank you for your continued business and referrals. We value your thoughts and encourage you to call us at anytime should you have any questions, concerns or suggestions.

Sincerely,

Author

Enclosures