

July 15, 2009

«Name»

Dear «Salutation»:

Enclosed are performance reports for your investments at Charles Schwab as of June 30, 2009.

### **REPORTS**

- *Schwab Investment Portfolio*
- *Portfolio Performance Review*
- *Position Performance Summary*

### **MARKET RECAP**

On Wednesday, June 24, 2009 the Federal Open Market Committee (Federal Reserve) issued, in part, the following statement:

“Information received since the Federal Open Market Committee met in April suggests that the pace of economic contraction is slowing. Conditions in financial markets have generally improved in recent months. Household spending has shown signs of stabilizing but remains constrained by ongoing job losses, lower housing wealth and tight credit. Businesses are cutting back on fixed investment and staffing but appear to be making progress in bringing inventory stocks in better alignment with sales. Although economic activity is likely to remain weak for a time, the committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability.”

While the economy may no longer be in a free fall, it is likely to remain weak for the near future. And while the 35.9% positive return in U.S. stocks (S&P 500 index) from its recent low on March 9, 2009 through June 30, 2009 has given rise to optimism, it is sobering to realize that U.S. stocks have fallen 41.3% from their high point on October 9, 2007.

### **LESSONS LEARNED**

As advisors, we strive to understand the myriad causes that have led to the significant financial losses most investors worldwide have suffered. They include outright fraud, the failure of

regulators and Congress to oversee financial institutions, the reckless creation and use of complex financial instruments, a lack of understanding of risks caused by the use of leverage and the breakdown of traditional standards between borrowers and lenders, just to name a few. We think there are some important lessons to be learned from this current crisis, namely:

1. Individual investors, particularly those approaching the time when savings will be spent, must consider worst case scenarios in managing the downside risk to their portfolios. Extreme events, as measured by the magnitude of loss and volatility, occur frequently.
2. Corporate bonds and stocks during the current financial crisis became more correlated, thus reducing the expected benefits of diversification in an otherwise well-diversified portfolio. The events of 2008 made it clear that certain corporate bonds can have similar risk-return characteristics as stocks. While global public stocks should be used to provide relatively high real long-term returns, government bonds and cash equivalents should be used to provide income and short-term market risk protection. Tangible assets, like real estate, commodities and inflation protected bonds should be used to provide inflation protection.
3. Liquidity cannot be taken for granted. Many investors experienced cash flow problems because assets couldn't be sold. There is a time-tested accounting principal that assets should match the nature of the liabilities they are meant to satisfy. Short term liquidity needs must be identified and funded using appropriate investments.
4. Too many advisors and institutional investment managers have lost sight of the fact that they owe a fiduciary duty to the clients that entrusted money to them. In a recent speech given to the Columbia University School of Business, John Bogle, the founder of Vanguard, states "that fiduciary duty is the highest duty known to law." Bogle says institutional managers, as a group, have veered from "stewardship to salesmanship" and from a "focus on long-term investment to a focus on short-term speculation." Conflicts of interests abound and brokers and their representatives lobby to avoid being held to the legal standard of a fiduciary.

As both CPAs and representatives of Filomeno Wealth Management, an SEC registered investment adviser, we are held to a legal fiduciary standard. To us, the fiduciary standard not only requires us to avoid conflicts of interest and to perform appropriate due diligence, but to always strive to do the right thing for our clients.

THANK YOU for your business and please contact me for assistance.

Sincerely,

«Author»

Enclosures