



FILOMENO WEALTH MANAGEMENT, LLC

Registered Investment Adviser

February 27, 2009

TO OUR INVESTMENT CLIENTS:

Reflecting on the Wisdom of Benjamin Graham (1894-1976)

We suspect most of you have never heard of Benjamin Graham. Mr. Graham was a professor at Columbia Business School and the author of *The Intelligent Investor*, often described as the single best book on investing ever written. Warren Buffett, Mr. Graham's student at Columbia, said: "More than any other man except my father, he influenced my life." *The Intelligent Investor* is required reading for each advisor at Filomeno Wealth Management (FWM).

This week's headlines indicating that "Consumer Confidence Plummets to New Low", "Buyers Flee as S&P and Dow Hit 12-Year Lows", and "U.S. Home Prices Drop at a Record Pace" serve as constant reminders (as if we needed more) that we live in unsettling and challenging times.

We know that each of our investment clients has experienced considerable loss in their portfolios notwithstanding well thought out investment plans. We know that each of our investment clients is worried about his or her future and wondering what they should now be doing with their investments. It is for these reasons we think you should reflect on the wisdom of Benjamin Graham.

Bond-Stock Allocation

Graham suggests a simple approach to the important subject of bond-stock allocation. Graham suggests that an investor should not commit less than 25% or more than 75% of his funds to stocks, with the remaining 75% to 25% in bonds. He indicates "the sound reason for increasing the percentage in common stocks would be the appearance of the bargain price levels created in a protracted bear market. Conversely, sound procedure would call for reducing the common stock component...when...the market level has become dangerously high."

Graham also points out that common stocks are subject to recurrent and wide fluctuations in their prices and that the intelligent investor should profit from these pendulum swings, not by trying to time the market swings, but rather by purchasing common stock when their prices have fallen substantially. Graham states: "Market movements are important...because they alternately create low price levels at which he would be wise to buy and high price levels at which he certainly should refrain from buying and probably would be wise to sell."

Emotional Discipline

Graham once said: "The investor's worst enemy is likely to be himself." Graham recognized that stocks become more risky, not less, as their prices rise and less risky, not more, as their prices fall. While a substantial rise in the market is a legitimate reason for satisfaction, Graham points out that the rise may result in a "strong temptation toward imprudent action" that will require "considerable will power to keep from following the crowd" by not making larger commitments in a bull market atmosphere.



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When asked what keeps most individual investors from succeeding, Graham replied: "The primary cause of failure is that they pay too much attention to what the stock market is doing currently."

Our Thoughts

Unlike most investment advisors, we generally, by agreement, do not have discretion to make investments on your behalf without your consent. We believe the resulting benefits of dialogue between us and you result in more informed investment decisions on both our parts. Times like these give us the opportunity to revisit your financial and personal situation and reflect on the risks and opportunities inherent in your investment plan. In that regard, we think it important to keep the following in mind:

- Reexamine your risk tolerance. Distinguish between your capacity to lose money and your willingness to lose money;
- Don't let investment decisions be overly influenced by fears and hopes. One of our roles is to help you to have the discipline and patience to adhere to a sensible and well thought out investment plan;
- Take advantage of a bear market as long as you have enough cash to meet your short term spending needs and to invest;
- Don't wait for a bear market to invest. Unless the stock market is much higher than can be justified, it is probably better to invest systematically;
- Control the controllable. We will continue to emphasize the importance of minimizing trading costs, management fees, and income taxes;
- Periodically rebalance your asset allocation to take advantage of stock-bond price movements;
- Use your *Investment Policy Statement* as a valuable communication tool to identify all relevant information upon which our investment recommendations are based;
- Diversify your investment holdings. By so doing you will reduce the overall volatility of your portfolio;
- Whether you agree or disagree with our advice, it does not make either of us right or wrong. We do not have a crystal ball, but we promise to give you our best and independent advice based on our expertise, experience and knowledge of your situation;

Please contact us if you would like to discuss your situation further or would like a complimentary copy of *The Intelligent Investor*.

Very truly yours,

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