

Investor Insights & Outlook

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Filomeno Wealth Management, LLC Introduces Newsletter

Investment Education - "Providing outstanding financial education resources to our clients is our commitment to their informed participation in their future." These words can be found on our website under our approach to investing. We believe you will make better investment decisions if you have access to unbiased and relevant investment information. Accordingly, we are very pleased to announce that we are co-branding our quarterly newsletter with Morningstar, a leading provider of independent investment research.

Market Commentary - All is not perfect in the world. Never has been and never will be. For the quarter ended June 30, 2010 large U.S. stocks (S&P 500) fell 12% and the yield on 10 year U.S. Treasury Notes fell from 3.83% to 2.95%, a dramatic 23% decline. However, for the year ended June 30, 2010 large U.S. stocks rose 12%.

Successful investing requires patience, savings and the discipline to adhere to a well developed strategy.

Much has been written lately about the sovereign debt crisis in Europe and the high level of U.S. debt. The European response has generally been to reign in public spending. The U.S. response has been a greater emphasis on economic stimulus, although with increasing concern about fiscal discipline.

Investors continue to pour money into bond funds. While bonds are a very important asset class to own, we are concerned about today's low yields and the impact on their value when rates rise. While we anticipate slower U.S. growth later this year as the effect of stimulus spending is withdrawn and deleveraging continues, we are encouraged that businesses have lots of cash that they are starting to spend (Intel recently reported its biggest quarterly profit in a decade) and many emerging market economies are prospering.

Advisor Corner

Enclosed are your Schwab Investment Portfolio and Portfolio Performance Review reports as of June 30, 2010.

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Filomeno Wealth Management, LLC

Fund Review

“Vanguard Total Bond Market Index” (See attached Morningstar profile). As indicated in our prior newsletter, we plan to highlight in each newsletter a fund that we use in many of our clients’ portfolios. This passively managed fund is typically used as a core taxable bond holding in a tax deferred portfolio to gain diversified exposure to the investment grade U. S. bond market (A) see page 5. The fund invests in U.S. Treasuries, investment-grade corporate, mortgage-backed and asset-backed securities (B). This high quality bond portfolio has an intermediate duration (a measure of interest rate sensitivity) of 4.5 (C). Its mean total return over the past 10 years has been 6.83% (D). The fund’s annual total return (comprised of the sum of the income return (interest) and capital return (change in price)) is illustrated since 1999 (E). The current annual expense ratio of the fund is a very low .22% (F).

After the Storm

Severe market declines can scare investors into selling at the worst possible time: when prices are at their lowest. Sticking with your investment strategy through tough times requires careful planning and discipline, but it is more likely to pay off in the long run.

The image illustrates the average performance of stocks, bonds, and a diversified portfolio during and after four U.S. recessions. During recessions, stocks performed the worst and bonds the best, while the diversified portfolio offered a middle ground. However, after the recessions and in the long run, stocks provided the highest returns, followed by the diversified portfolio; bonds did not measure up. There are two lessons here: 1) Since you cannot know for certain when the market will bottom out, if you are invested, stay invested, and 2) Diversify in order to reduce downside risk.

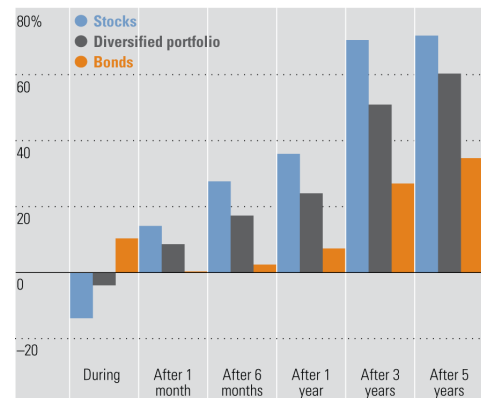
Our People and Their Activities

Rick Thibodeau and Mike Tedone, along with one of our clients (a first), attended the Morningstar Investment Conference in Chicago in June. The conference offers us the opportunity to hear the concerns and opportunities expressed by some of the world’s best investment managers and industry leaders. We look forward to sharing these insights with you during our investment review meetings.

Kathy Christensen and Kim Lockwood recently attended the Schwab Solutions Conference in Boston. These workshops focused on continuing developments in technology, research, and reporting.

Elizabeth DeBassio was welcomed back to work on June 1st following maternity leave for the birth of her son, Charlie.

Performance During and After Recessions



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Recession data is from National Bureau of Economic Research (NBER). The average cumulative returns are calculated from the end of each of the longest four recessions in U.S. history (1929–2008). The four recession periods considered herein as defined by the NBER are as follows: Aug. '29 – Mar. '33; May '37 – June '38; Nov. '73 – Mar. '75; and July '81 – Nov. '82. The recession that began in December 2007 is still occurring and is not included in the analysis. The diversified portfolio consists of 60% stocks and 40% bonds, and is always rebalanced. Please keep in mind that diversification does not eliminate the risk of experiencing investment losses.

Source: Stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general, and bonds by the 20-year U.S. government bond. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Portfolio Performance

A portfolio is a group of asset classes, such as stocks or bonds, held by an investor. When it comes to constructing an investment portfolio, risk tolerance, time horizon, and investment objectives need to be carefully considered.






Would you lie awake at night worrying about your portfolio if it was heavily invested in stocks? How long is it before you will need to start withdrawing money from the portfolio? If retirement is still 30 years away, you might be able to invest in riskier asset classes because you have time to ride out potential down periods. Your financial advisor can help you address these potential situations and much more.

The table illustrates how various portfolios performed since 1926. Each portfolio's total return is presented along with its corresponding risk, and a few other statistics are highlighted as well. Notice that as the allocation to stocks increases, the returns increase. However, these higher portfolio returns are associated with much greater risk than in portfolios with a lower allocation to stocks. For instance, out of the five portfolios presented, the 100% stock portfolio provided the highest return but also came with the most risk. When the 100% stock portfolio is compared with the 50% stock and 50% bond portfolio, one will notice that the risk decreases dramatically; however, the return also declines—by 1.7%. Stocks have a higher level of risk than bonds and those who invested in this asset class were rewarded accordingly. One other thing to note is that the 25% stock and 75% bond portfolio came with the least amount of risk (9.0%) and a moderate return of 6.9%. Despite the fact that bonds are considered less risky than stocks by many investors, the portfolio with the least risk did not consist entirely of bonds. The reason for this is that stocks and bonds are not highly correlated; meaning, they tend to move independently of one another. So, if stocks took a hit, bonds might be up and vice versa. These opposite movements may help reduce the overall risk of the portfolio.

An investor with a long time horizon might be able to deal with short-term risk in order to receive the higher return opportunities that more aggressive portfolios may provide. On the other hand, an investor with short-term goals may opt for a more conservative portfolio for more stability and potentially less downside risk.

Constructing an investment portfolio is not an easy task. Moreover, once the allocations have been determined, they tend to shift over time because of the performance of the underlying asset classes. Consequently, the portfolio will need to be rebalanced in order to maintain a target asset mix and a given level of risk. Lastly, as you grow older and your goals and risk tolerance change, your portfolio allocation will need to change as well. Investing is an ongoing process—be sure to consult with your financial advisor throughout this challenging journey.

Summary Statistics of Various Portfolio Allocations 1926–2009

Portfolio	Return	Risk	# Positive periods	# Negative periods	Highest return	Lowest return
 100% Stocks	9.8%	20.5%	60	24	54.0%	-43.3%
 75% Stocks/ 25% Bonds	9.1%	15.6%	63	21	41.3%	-34.2%
 50% Stocks/ 50% Bonds	8.1%	11.4%	65	19	34.7%	-24.7%
 25% Stocks/ 75% Bonds	6.9%	9.0%	69	15	35.7%	-15.0%
 100% Bonds	5.4%	9.6%	62	22	40.4%	-14.9%

Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs. Portfolios are always rebalanced. Past performance is no guarantee of future results.

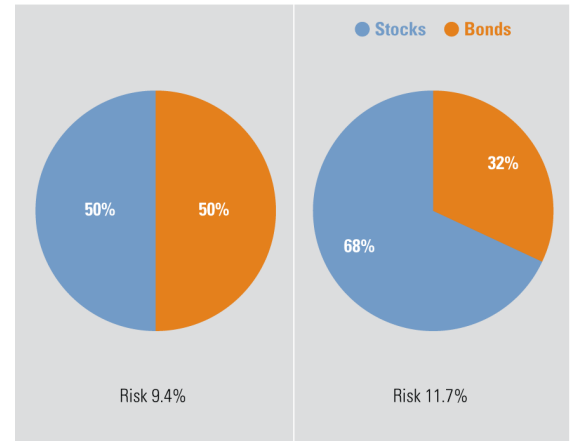
Source: Stocks in this example are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Bonds are represented by the 20-year U.S. government bond.

The Importance of Rebalancing

Over time, your asset-allocation policy can veer off track because of market ups and downs. This is illustrated quite clearly in the image below; a strong stock performance can cause a simple 50/50 portfolio mix to become unbalanced over time. After 30 years, what was once a 50% allocation to stocks now sits at 68%—quite a jump. Moreover, not only does the portfolio's allocation change, but the portfolio's risk also changes, rising sharply from 9.4% to 11.7%. If your needs and/or risk tolerance have not changed, your allocation shouldn't either.

But why would anyone want to sell investments that have done great in order to purchase laggards? While rebalancing might seem odd at first, it is all about risk control. If more and more of your total portfolio winds up in one investment, you risk losing a lot should that investment stumble.

Change of Portfolio Allocation:
January 1980–December 2009



Keep in mind that an investment cannot be made directly in an index, and past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. The sale of an investment for the purposes of rebalancing may be subject to taxes. Risk is measured by standard deviation. Standard deviation is a statistical measure of the extent to which returns vary from the expected returns. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest. Stocks are not guaranteed and have been more volatile than bonds.

Source: Stocks—Standard & Poor's 500®, which is an unmanaged group of securities and is considered to be representative of the stock market in general; Bonds—five-year U.S. Government Bond.

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