

Investor Insights & Outlook

October 2010 | Vol. No. 2 | www.filomenowealth.com

Filomeno Wealth Management, LLC Newsletter

Market Recap – Large cap domestic stocks (S & P 500) rebounded strongly in the third quarter with a total return of 11.3% and a year-to-date return of 3.9%. Since the market peak on October 9, 2007 the S & P 500 index has fallen 22%. The S & P 500 index has risen 74.3% since the market low on March 9, 2009. Developed foreign markets (EAFE) and emerging markets rose 16.5% and 18.2% (in USD), respectively, in the third quarter and 1.5% and 11% (in USD), respectively, year-to-date. The industrial and consumer discretionary sectors have been the strongest performing stock sectors year-to-date and energy and health care the weakest.

Bond yields have continued to fall dramatically. The yield on 10-year U. S. Treasuries has fallen from 3.85% on December 31, 2009 to 2.53% on September 30, 2010. The yield on 10-year Treasury Inflation Protected Securities (TIPS) was .75% on September 30, 2010, implying an expected inflation rate of 1.78%. The yields

on municipals, emerging debt and high yield debt as of September 30, 2010 were 3.01%, 5.27% and 7.8%, respectively.

World Economic Outlook – On October 6, 2010 the International Monetary Fund (IMF) released its latest world economic report. According to the IMF, the world economy is forecast to grow by 4.8% in 2010 and 4.2% in 2011. But it is an unbalanced recovery, with emerging and developing economies expected to expand at rates of 7.1% and 6.4% in 2010 and 2011, respectively. In advanced economies, growth is projected to be only 2.7% and 2.2%, respectively. Inflation is expected to stay generally low in regions experiencing excess capacity and high unemployment.

According to the IMF, key policy challenges for advanced economies will be to effect a smooth transition

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Advisor Corner

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



Investing in Emerging Markets

Emerging-market economies offer tempting rewards and are becoming more standard among investors willing to take on additional risk. Commonly called developing-market economies, they are in transition but are beginning to see a substantial increase in living standards and income, rapid economic growth and a relatively stable currency. They can be small or large economies and can be found all over the globe. Examples include China, India, Korea and Thailand in Asia; Poland, Israel, Egypt, and Turkey in Europe and the Middle East; and Brazil, Chile and Mexico in Latin America. As of May 2010, MSCI Barra identified 22 emerging countries worldwide.

Since these economies are still developing, the risk of an emerging-market investment is higher when compared to a developed market. Some of these risks include currency fluctuations, foreign taxation and political, social and economic upheaval. However, such added risk comes with the potential for higher returns.

Perhaps the easiest way to include emerging markets in a portfolio is to buy an emerging-markets mutual fund. This is a mutual fund that holds various investments in emerging countries, bringing you the added benefit of diversification. Make sure to read the mutual fund's prospectus very carefully before investing or sending any money.

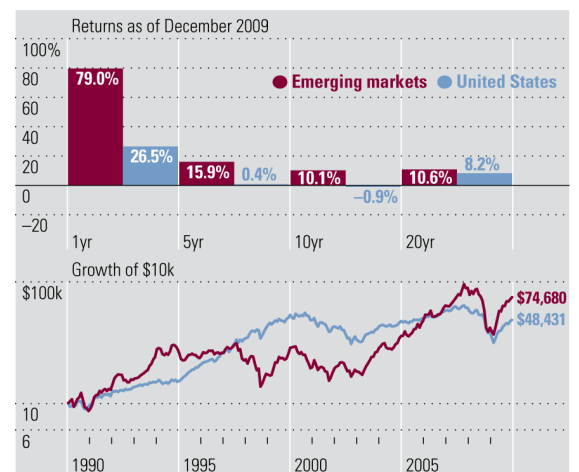
Another way to invest in emerging markets would be to buy stocks of foreign companies directly—much more difficult and risky to do on your own. You may also hear the term ADR connected with international investing. It stands for American Depositary Receipt, and it is an instrument allowing the stock of a foreign company to trade on a U.S. exchange. However, no matter how you decide to invest, always keep in mind the risks associated with international and emerging-market investments.

The graph illustrates the historical short- and long-term performance of emerging markets compared with U.S. markets. Emerging markets

posted very respectable returns, beating those of the U.S. market in every time period. However, these returns came with additional risk, as shown by the volatility of the line graph. A hypothetical \$10,000 invested in emerging markets would have grown to \$74,680 over this 20-year time frame, compared to \$48,431 for domestic investments.

While the emerging markets' ending wealth value easily surpassed that of the U.S. investment, it accumulated over a rather long time horizon. Note that emerging markets can experience a much greater upside and often a deeper downside in any particular year (2008, for example). Consequently, this type of investment is more appropriate for long-term investors who can handle potentially large fluctuations in returns.

Undeveloped Opportunities: 1990–2009



International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards. Emerging-market investments are riskier than developed-market investments. Liquidity is typically lower in emerging markets than in developed markets. An investment cannot be made directly in an index. Returns and principal invested in stocks are not guaranteed.

Source: U.S. stocks are represented by the Standard & Poor's 500® index, which is an unmanaged group of securities and considered to be representative of the stock market in general. Emerging markets are represented by the Morgan Stanley Capital International Emerging Markets Index.

The 2010 Financial Reform Explained

In the wake of what is quickly becoming known as “the worst financial crisis since the Great Depression,” the global economy is still slowly rebuilding. In the U.S., the government realized that it needed to take action to prevent a similar crisis, and on July 21, after a yearlong struggle, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (also known as the Wall Street Reform Act) into law. Here are some of the most important provisions of this bill:

Consumer Protection: The law creates the Consumer Financial Protection Bureau, a new independent watchdog agency tasked with ensuring that U.S. consumers have access to clear, accurate, and timely information about financial contracts such as loans, mortgages, and credit cards. The agency will also protect consumers from hidden fees (small-type footnotes beware!) and abusive or deceptive practices.

Financial Stability: We’ve all probably heard the phrase “too big to fail” too often. Financial powerhouses like Bear Stearns and Washington Mutual went bankrupt and almost brought the whole system tumbling down with them, dissolving the economic security of millions in the process. Another new group, the Financial Stability Oversight Council, has been created to see these situations coming. It will monitor large, complex financial firms in order to identify and quickly address problems that could potentially snowball. Increasingly strict rules will be enforced for capital, leverage, liquidity, risk management, and other requirements. Banks and their affiliates will have restrictions on investments in hedge funds and private equity funds.

Financial System Regulation: Since “no one saw it coming” and “it wasn’t our responsibility,” from now on clear lines of responsibility will be defined and shared between the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Federal Reserve as to which agency is supervising which type of bank. A new Office of Credit Rating Agencies will be created as part of the SEC, with

the mission to implement new rules for credit rating agencies, such as stronger internal controls, requirements to make key findings public, and penalties for biased ratings.

Transparency and Accountability: Derivatives have long ceased to be simple risk-management tools and have instead become speculative vehicles that enable traders to make enormous bets with no regulatory oversight. The new law now gives the SEC the authority to regulate derivatives, both over-the-counter ones and other types. Companies that sell products like the now-infamous mortgage-backed securities are required to retain at least 5% of the credit risk instead of passing it all over to investors. Hedge funds, which used to operate in their own money-filled bubbles and could not be bothered to register with the SEC, are now required to register and to provide the information necessary to assess their contribution to systemic risk.

Executive Compensation: You’re the CEO, you do all the work, you take all the risks—it’s only fair that you should be paid billions while the rest of us settle for less because, hey, the economy is in a crisis. However, saying that Wall Street’s compensation system has been way out of control is an understatement: think about Merrill Lynch ex-CEO John Thain’s \$87,000 area rug, or former head of Wachovia Robert Steel’s \$225 million in golden-parachute (executive severance package) money. To step away from this system, the financial reform law will give shareholders the right to vote on executive pay. Public companies will be required to set policies to take back executive compensation if financial statements are shown to have been tampered with or made inaccurate, and executive compensation will be determined by taking the company’s stock performance over a five-year period into account.

These are just a few highlights, but the impact on institutions, financial advisors, and investors should be significant. Overall, the provisions in this bill look great on paper, but the real challenge lies in putting all these good intentions into practice.

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from public to private sector led growth, support business and consumer activity through the use of highly accommodative monetary policy, adopt fiscal policies to reduce budget deficits, spur exports and reform the financial sector. Emerging economies will have to rebalance growth further toward domestic rather than export driven sources and support greater exchange rate flexibility.

While the economic recovery is proceeding broadly, the global economy remains fragile according to the IMF. We encourage you to read the IMF World Economic Outlook which can be found at www.IMF.org. How well countries and regions address the issues discussed in the IMF report will greatly influence both the magnitude and timing of the global recovery.

Fund Review - "Vanguard Emerging Markets Stock ETF" (See attached Morningstar profile) seeks to track the performance of the MSCI Emerging Markets index. This index includes approximately 800 common stocks of companies in diversified sectors located in emerging markets around the world (A). Regional exposure is diversified among Asia, Central & Latin America and Eastern Europe (B) with the greatest country exposure in China, Brazil and South Korea. Portfolio turnover and expense ratio are low at 12% and .27%, respectively (C). We use this fund in many of our clients' portfolios to achieve our target allocation to emerging market stocks.

Our People and Their Activities - On October 27-29 FWM's investment advisors will be attending the annual Schwab IMPACT conference in Boston. Keynote speakers include Henry Paulson, Jr., former U.S. Treasury Secretary, Liz Ann Sonders, Schwab's Chief Investment Strategist and Condoleezza Rice, former U.S. Secretary of State.

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Vanguard Emerging Markets Stock ETF

Overall Morningstar Rtg[™] **★★★★ 9** Prem/Discount — Mkt Price 40.80 Morningstar Cat Diversified Emerging Mkts
Standard Index Category Index
 MSCI EAFE NR USD MSCI EM NR USD

Performance 08-31-2010

Quarterly Returns	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total %
2008	-10.43	-1.35	-25.95	-27.94	-52.85
2009	0.13	34.17	21.20	8.27	76.28
2010	2.49	-9.10	—	—	-0.46

Trailing Returns	1 Yr	3 Yr	5 Yr	10 Yr	Incept:
Std Qtrly Mkt	21.00	—	11.66	—	10.47
Std Qtrly NAV	22.25	—	11.83	—	10.41
Mkt Total Ret	18.00	-2.17	11.44	—	11.56
NAV Total Ret	17.77	-1.91	11.61	—	11.40
+/- Std Index	20.11	8.84	10.65	—	—
+/- Cat Index	-0.25	-0.41	-0.77	—	—
% Rank Cat	39	87	34	—	—
No. in Cat	27	9	4	—	—

Performance Disclosure

The Overall Morningstar Rating is based on risk-adjusted returns, derived from a weighted average of the three-, five-, and 10-year (if applicable) Morningstar metrics.

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate; thus an investor's shares, when sold, may be worth more or less than their original cost.

Current performance may be lower or higher than return data quoted herein. For performance data current to the most recent month-end, please call 610-669-1000 or visit www.vanguard.com.

Fees and Expenses

Fund Expenses	
Management Fees %	0.17
12b1 Expense %	NA
Prospectus Gross Exp Ratio %	0.27

Risk and Return Profile

	3 Yr	5 Yr	10 Yr
Morningstar Rating [™]	3★	4★	—
Morningstar Risk	Avg	Avg	—
Morningstar Return	—	—	—

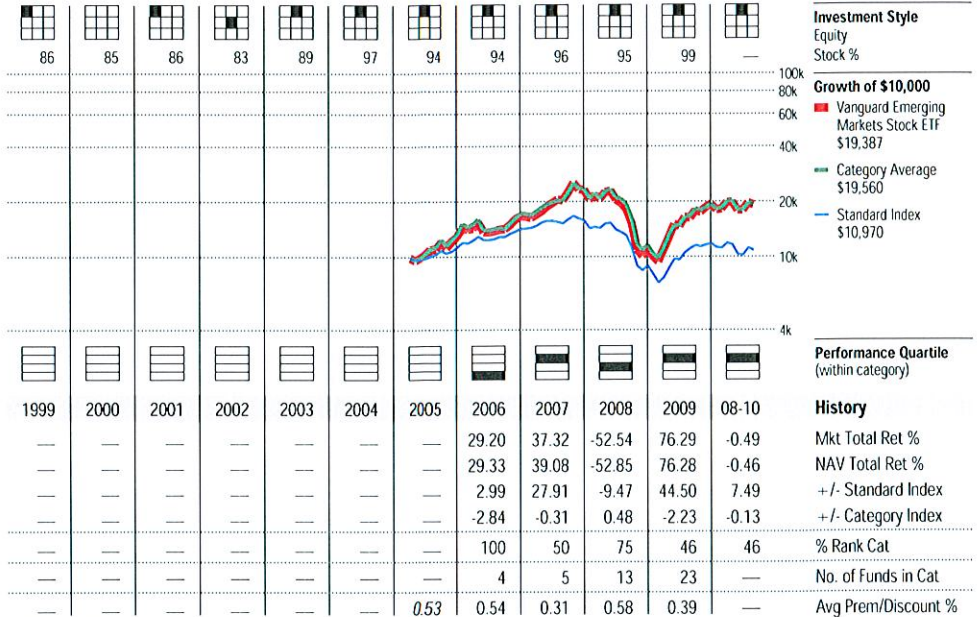
	3 Yr	5 Yr	10 Yr
Standard Deviation NAV	34.19	28.70	—
Standard Deviation Mkt	33.53	28.25	—
Mean NAV	-1.91	11.61	—
Mean Mkt	-2.17	11.44	—
Sharpe Ratio	0.09	0.44	—

MPT Statistics	Standard Index	Best Fit Index
NAV	—	MSCI EM NR USD
Alpha	14.34	-0.29
Beta	1.26	1.01
R-Squared	89.46	99.03

12-Month Yield	—
30-day SEC Yield	—
Potential Cap Gains Exp	—

Operations

Family:	Vanguard	Ticker:	VVO
Manager:	Duane Kelly	Exchange:	NYSE ARCA
Tenure:	15.8 Years	Incept:	03-04-05
Total Assets:	\$31,205 mil	NAV:	40.79



Portfolio Analysis 06-30-2010

Composition %	Long %	Short %	Net %	Share Chg since	Share Amount	812 Total Stocks	12% Turnover Ratio	% Assets
Cash	0.0	0.0	0.0	—	—	—	—	—
U.S. Stocks	0.0	0.0	0.0	⊕	77 mil	China Mobile Ltd.	—	2.02
Non-U.S. Stocks	99.1	0.0	99.1	⊕	244 mil	America Movil S.A.B. de C.V.	—	1.52
Bonds	0.0	0.0	0.0	⊕	30 mil	Gazprom	—	1.46
Other/Not Classified	0.8	0.0	0.8	⊕	693 mil	Industrial And Commercial Ban	—	1.32
Total %	100.0	0.0	100.0	⊕	578 mil	China Construction Bank Corpo	—	1.22

Equity Style	Portfolio Statistics	Port Avg	Rel Index	Rel Cat	Share Chg since	Share Amount	812 Total Stocks	12% Turnover Ratio	% Assets
Value Blend Growth	P/E Ratio TTM	14.2	1.09	—	⊕	1 mil	Samsung Electronics Co Ltd	—	1.18
	P/C Ratio TTM	7.4	1.25	—	⊕	712,709	Samsung Electronics Co Ltd	—	1.17
	P/B Ratio TTM	2.0	1.47	—	⊕	96 mil	China Life Insurance Company,	—	1.10
	Geo Avg Mkt	15706	0.59	—	⊕	17 mil	Reliance Industries Ltd.	—	1.03
	Cap \$mil	—	—	—	⊕	230 mil	CNOOC, Ltd.	—	1.03
					⊕	734 mil	Bank Of China Limited	—	0.97
					⊕	6 mil	Infosys Technologies, Ltd.	—	0.92
					⊕	98 mil	Hon Hai Precision Ind. Co., L	—	0.90
					⊕	11 mil	Petroleo Brasileiro Sa Petrob	—	0.88
					⊕	16 mil	Vale S.A.	—	0.86

Fixed-Income Style	Ltd	Mod	Ext	Avg Eff Duration	Avg Eff Maturity	Avg Credit Quality	Avg Wtd Coupon	Avg Wtd Price
High	—	—	—	—	—	—	—	—
Med	—	—	—	—	—	—	—	—
Low	—	—	—	—	—	—	—	—

Credit Quality Breakdown	Bond %
AAA	—
AA	—
A	—
BBB	—
BB	—
B	—
Below B	—
NR/NA	—

Regional Exposure	Stocks %	Rel Std Index
Americas	22.9	—
Greater Europe	17.8	—
Greater Asia	59.3	—

Sector Weightings	Stocks %	Rel Std Index
Information Economy	21.3	—
Software	1.7	—
Hardware	8.7	—
Media	1.1	—
Telecommunication	9.8	—
Service Economy	32.5	—
Healthcare Services	0.8	—
Consumer Services	2.9	—
Business Services	2.2	—
Financial Services	26.5	—
Manufacturing Economy	46.1	—
Consumer Goods	10.7	—
Industrial Goods	18.0	—
Energy	14.5	—
Utilities	2.9	—