

Investor Insights & Outlook

January 2011

Vol. No. 3

Investment Updates

Filomeno Wealth Management, LLC Newsletter

Market Recap

For 2010, small domestic stocks (Russell 2000) were the top performing asset class, ending the year with a return of 16.4% for the quarter, 26.9% for the year. Large domestic stocks (S&P 500) ended the year with a return of 10.8% for the quarter, 15.1% for the year. As we look abroad, developed foreign markets (EAFE) and emerging markets returned 6.6% and 7.1% (in USD), respectively, for the quarter and 7.8% and 16.4% (in USD), respectively, for the year. Precious metals and real estate were the strongest performing sectors and health care and utilities were the weakest.

The 10-year US Treasury yield ended a volatile year at 3.30%, down from 3.85% on December 31, 2009 and up from 2.53% on September 30, 2010. Bond prices and yields move in opposite directions. The BarCap

Municipal Index return was negative 4.2% for the quarter, positive 2.4% for the year. The BarCap US Agg Bond Index return was negative 1.3% for the quarter and positive 6.5% for the year. The BarCap Global Aggregate Index return was negative 1.3% for the quarter and positive 5.5% for the year.

Fund Review

As a follow up to our December email regarding municipal bonds, we decided to review a municipal bond this quarter. "Vanguard Intermediate-Term Tax-Exempt Admiral Class" (see attached Morningstar profile) tracks the BarCap Municipal Index. There are 2,831 bonds in the fund (A) with 95% of the holdings with a credit quality of A or higher (B). The 12-month yield for the fund is 3.79% (C) and the expense ratio is quite low at .12% (D). We use this fund in many of our clients' portfolios as a high-quality intermediate-term tax-exempt bond holding.

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Advisor Corner

Filomeno Wealth Management,
LLC
860-561-0020

Enclosed are your Schwab
Investment Portfolio and Portfolio
Performance Review reports as of
December 31, 2010.

Included in this newsletter is
Filomeno Wealth Management's
Privacy Notice and information
about FORM ADV, Part II.



Destination Correlation

"Correlation" and "correlated assets" are mainstay expressions in the jargon of investors and financial professionals, and while the concept of correlation can be confusing to novice investors, a quick explanation can clarify why correlation is a key factor in portfolio construction.

Let's say you or your financial advisor are trying to choose two investments in the construction of a portfolio. Would you prefer investments that are similar (move in the same direction) or investments that are dissimilar? Think about it this way: If you are going on vacation to an unknown island, what type of clothes will you put in your suitcase? If you only take summer clothes and the island nights turn out to be cold, or if you only bring winter clothes and the climate is tropical, your vacation will probably end in tears. It's the same with investing: You're better off diversifying than putting all your money in similar investments.

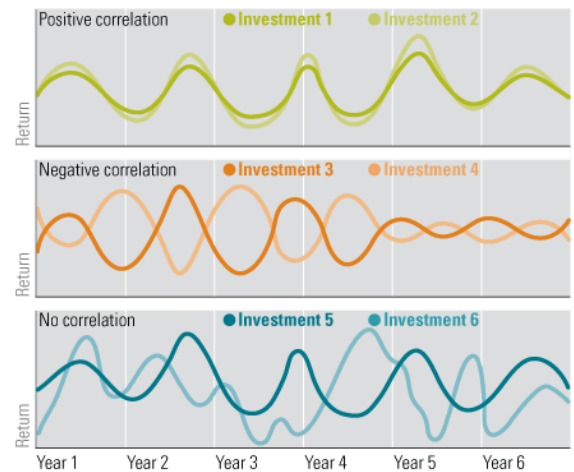
In order to create a truly diversified portfolio, the investments in the portfolio have to compensate for each other's shortcomings. If investment A declines in value, ideally you would want investment B to increase in value, or at least decline less than investment A. In order to achieve this, you need two investments that behave differently, meaning they have a low correlation.

Correlation is a statistical measure designed to quantify the interrelationship of two investments (again, investment A and investment B). By taking into account the characteristics of the two investments, a mathematical formula calculates a number between -1.00 and $+1.00$. This number is called the correlation coefficient. If this coefficient is negative (for example, -0.81), we say the two asset classes are negatively correlated. This simply means they tend to move in different directions: if asset class A declines in value, asset class B is likely to increase in value, and vice versa. If the correlation coefficient is positive (for example, $+0.34$), the two asset classes tend to move in the same direction: they are positively correlated. A correlation coefficient of zero means

the asset classes are completely uncorrelated; their movements in relation to one another are random.

Adding investments with low correlation to a portfolio can soften the impact of market swings because the investments do not all react to economic and market conditions in the same manner. For example, building a portfolio with large, small and international stocks would probably not be such a good idea because stocks are generally highly correlated to one another—if large stocks go down, the other stock categories will probably go down, too. The same logic applies to a portfolio with only bonds. However, combining stocks and bonds in a portfolio could provide a significant diversification benefit because these two types of investments do not tend to move together (they have a low correlation).

Various Levels of Correlation



Past performance is no guarantee of future results. Diversification does not eliminate the risk of investment losses. Investment returns shown and correlation numbers mentioned in the text are based on hypothetical data. Government bonds and Treasury bills 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.

Filomeno Wealth Management, LLC

Privacy Notice

At Filomeno Wealth Management, LLC, we appreciate the privacy concerns and expectations of our customers. We have established the following policies to maintain the privacy of information you share with us.

Information We Collect

We collect and retain nonpublic personal information about you that may include:

Information we receive on your account applications or other forms such as your name, address, financial information and/or social security number;

Information we receive about your securities transactions, such as purchases, sales and account balances;

Information we receive from others such as service providers, broker-dealers and your personal agents or representatives; and

Information you and others provide to us in correspondence sent to us, whether written, electronic or by telephone.

Information We May Share

We do not sell any of your nonpublic personal information to third parties. We may share the information we collect with third parties only when those parties are acting on our behalf in servicing your account, or as required by law. These third parties may include:

Administrative service providers who, for example, process transactions for your account, print checks or prepare account statements; and

Governmental or other legal agencies, as required by law.

When information is shared with third parties, they are legally obligated to maintain the confidentiality of the information and to limit their use of it to servicing your account, except as permitted or required by law.

Confidentiality and Security

Within our organization, we restrict access to your nonpublic personal information to authorized employees who need access to such information in order to provide services or products to you. We maintain physical, electronic and procedural safeguards to protect your nonpublic personal information.

Applicability

Our privacy policy applies only to those individual investors who have a direct relationship with us.

We value your business. We understand the importance of maintaining the integrity of your personal information and are committed to keeping your trust. Please contact us at (860)561-0020 if you have any questions concerning our policy.

Filomeno Wealth Management, LLC Newsletter

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FWM News

We are pleased to share that in 2010 Filomeno Wealth Management, LLC began many new client relationships as a result of current client introductions. We would like to thank you for the vote of confidence and the opportunity to help your friends, family and co-workers. We welcome the opportunity to help others that you think would benefit from our services.

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.

Our People and Their Activities

Michael Tedone has taken over the position of Managing Director of Filomeno Wealth Management, LLC while Richard Thibodeau, the former Managing Director, will remain "of counsel." Patricia Small has merged her tax practice into Filomeno and Company, P.C. and joined the Filomeno Wealth Management, LLC team, bringing over 30 years of financial and tax experience. Mike recently attended the 45th Annual Heckerling Institute on Estate Planning in Orlando, Florida. Rick also became a grandfather to Mitchell (Mitch) Joseph Thibodeau on January 14, 2011!

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