

January 2010
New Year, New Decade

The fourth quarter of 2009 brought the year to a close in climactic fashion, similar in some ways to how 2009 offered a strong finish for the decade of the 2000's. The fourth quarter saw gains of about 5%, a rather grand finale to what was a strong year for equities. The Dow finished the year nearly 19% ahead, a number that while strong really doesn't tell the whole story.

The sobering reality remains that 2009 was simply a partial recovery of losses incurred over the course of a particularly painful decade. The Dow Industrial average finished the decade down 9%, while the S&P 500 was down 24%. Those losses were obviously much deeper prior to 2009. When all is said and done, the most consistent performance over the past decade came from the Commodity (oil) and Emerging Market investments. Each had their moment of catastrophe late in 2008, but over the scope of the decade, the returns were quite strong.

There were a number of visible themes throughout the decade, the most consistent being the need for some type of disciplined tactical investment approach. The best performing investments at the beginning of the decade were the ones that faltered most notably. Despite this being a rare down decade for domestic equities (this was the first since the 1930s), there were prolonged rallies along the way. Traditional asset allocation plans fared poorly this decade while tactical strategies gave investors the chance to adapt to changes in the market, and the flexibility to incorporate those asset classes that offered the most consistent strength.

Was the decade 'the Big Zero' where we 'achieved nothing and learned nothing' as New York Times columnist Paul Krugman opines. I don't think so, but it was one heck of a cold shower on our hopes and dreams. Let's hope the water is a bit more temperate this year.

A few housekeeping items: With your year-end statement we have included two reports printed on blue paper for all taxable accounts. You need these reports to prepare your taxes. The first report is the 'realized gain and loss report' detailing the dates, costs, and proceeds from sales during 2009. This report goes with Form 1099 that Schwab will send you towards the end of January. The 1099 from Schwab is slightly different this year: it will, for the first time, show cost data. Please be sure the numbers all agree--call us if there is any discrepancy and we will work with your accountant to get things straight for the IRS. The second report is an expense report detailing management fees and margin expenses if you have any. In many cases, these are deductible expenses and your accountant will be looking for information.

We will be sending these reports directly to your accountant if we have the information. Please check with us to verify the contact information we have for your accountant.