

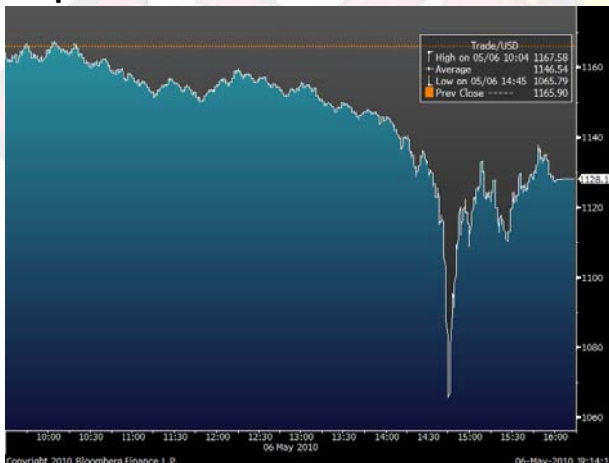
INVESTMENT COMMENT
Some Perspective on a Tumultuous Day

May 6, 2010

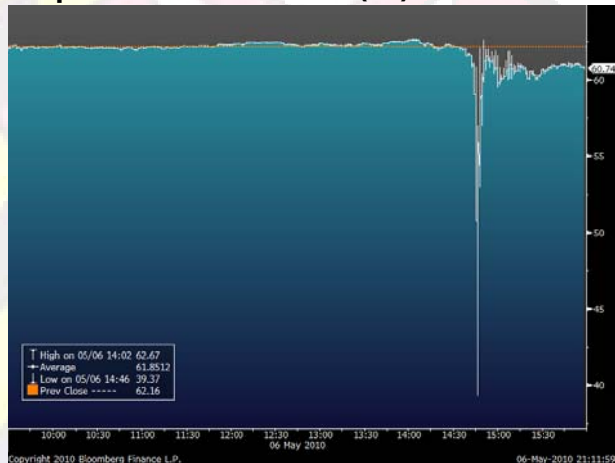
Global capital markets were pretty exciting today and, for about 10-12 minutes, the US stock market hit the equivalent of an "air pocket" - bid-side prices (i.e. the prices that market participants are willing to purchase securities) were non-existent or at levels 10-15% below yesterday's close. Graph #1 shows today's price history of the S&P 500 Index. At 2:45pm the US stock market, as measured by the S&P 500 Index, was -8.6% on the day. At that same time, the US Treasury 30-Year Bond traded +5.5% higher in price to its lowest yield since early October 2009 (4.06%). By 2:55pm stocks had rallied +5.0% from the low and the 30-Year bond price dropped -1.8% from its high. The last hour of trading was orderly, but the S&P 500 Index ended -3.2% while the US 30yr closed +3.4% for the day.

So, what drove today's market activity? Clearly there has been ongoing anxiety over fiscal instability in Europe, centered on Greece¹. **However, the 10-minute market collapse appears to have been caused by erroneous trade orders sent to electronic markets.** The details of how this happened are not yet known, but a review of trades in several individual securities highlights obvious "bad trades". Graph #2 shows today's price history for P&G and the precise timing of these trades² from \$61 down to \$39 3/8 and then back to \$61 – clearly an error.

Graph #1: S&P 500 Index



Graph #2: Procter& Gamble (PG)



Source: Bloomberg

From our perspective as long-term investors, today was a day to be careful in executing transactions while also monitoring portfolio risk allocations. **Since our firm relies on human, rather than computer, trading decisions, today's confusion did not cause any transaction errors in our client portfolios.** However, after such a tumultuous market session, it is interesting to review how various asset classes have performed, so as to understand the various elements of risk in our portfolios.

¹ Greece's Euro-denominated 10yr bond, issued just two months ago at a price of \$98.942, ended the European trading session at just \$70.263 to yield 11.28%.

² NASDAQ has announced that trades in certain stocks at prices more than 60% above or below 2:40PM prices will be cancelled.

The table below shows the Bottom-10 and Top-10 performing asset classes today, and presents year-to-date and 1-year returns. Note the following:

- **Several asset classes within the "Risk" allocation of our client portfolios were among today's worst-performers and some of today's best-performing asset classes belong to our "Low Risk" portfolio allocations.** This is as it should be. Risk assets provide higher long-term returns, but at the cost of greater volatility of returns. When we establish each client's Investment Policy Statement, it is this risk-balance that forms the basis of our long-term portfolio strategy.
- Despite today's – actually the past three days' – market rout, **1-year returns for all asset classes remain positive.**
- Domestic and global risk-balanced portfolios suffered a loss of up to 2% today, but, at this point, remain solidly positive over the past year.

Exposure to non-US markets has been a negative contributor to portfolio returns year-to-date, but remains a core allocation within our client portfolios. Should US markets continue to out-perform, we will likely rebalance US versus non-US allocations later this year.

Today's market offered another reminder to long-term investors that it is best to fight the urge to "do something" during the height of fear and confusion and, instead, adhere to a well-designed, risk-balanced strategy. Rather than attempting to predict which asset classes may outperform in the future, the better long-term approach is to readjust various risk exposures back to targets – after the fact.



| Selected Asset Classes | Today's | YTD | 1-Year |
|---|---------|---------|---------|
| May 6, 2010 | Return | Return | Return |
| TODAY'S WORST PERFORMING ASSET CLASSES | | | |
| International Real Estate | -5.51% | -7.75% | +24.42% |
| International Large Cap Value | -4.88% | -11.93% | +10.12% |
| Emerging Markets Small Cap | -4.84% | -5.36% | +39.16% |
| International Large Cap Core | -4.73% | -11.00% | +13.22% |
| Emerging Markets Bonds | -4.44% | -1.79% | +10.69% |
| Emerging Markets | -4.09% | -8.46% | +23.18% |
| US Real Estate Investment Trusts | -4.02% | +10.94% | +52.35% |
| US Small Cap Value | -3.92% | +10.37% | +36.49% |
| US Small Cap Core | -3.75% | +8.05% | +34.97% |
| US Small Cap Growth | -3.50% | +5.97% | +32.64% |
| TODAY'S BEST PERFORMING ASSET CLASSES | | | |
| US Treasuries 20-30yr | +3.09% | +9.19% | +3.79% |
| Gold | +2.95% | +10.41% | +32.33% |
| Inv Grade Long Duration | +2.44% | +7.83% | +27.64% |
| US Treasuries 7-10yr | +1.10% | +5.28% | +2.80% |
| US Treasury IPS (TIPs) | +0.45% | +3.21% | +10.97% |
| US Treasuries 1-3yr | +0.22% | +1.30% | +1.97% |
| Mortgage-Backed (MBS) | +0.10% | +2.55% | +5.46% |
| Municipals Long Duration | +0.04% | +2.43% | +6.27% |
| Municipals Short Duration | +0.02% | +0.55% | +0.26% |
| Municipals Intermediate | -0.05% | +2.21% | +7.15% |
| EQUITY INDICES | | | |
| MSCI World Index | -2.77% | -2.71% | +23.63% |
| S&P 500 Index | -3.22% | +1.82% | +25.29% |
| BALANCED PORTFOLIOS | | | |
| Domestic 60/40 Fund | -1.78% | +3.19% | +19.83% |
| Global 60/40 Fund | -2.02% | +1.49% | +20.42% |
| Global 25/75 Fund | -0.71% | +2.01% | +12.08% |

Source: Bloomberg Professional

Note: Returns include reinvested dividends.