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Perspectives

AUGUST 2009

The Next New Thing: Should You Take More or Less Risk Moving Forward?

By William J. Militello, CIMA, AIFA

The Credit Crisis which began to reveal itself two years ago prompted the Federal Reserve of the United States to take action and lower the Fed Funds interest rate through a series of cuts from 5.25% to effectively zero percent. Investors who held stock or an equity mutual fund during this period suffered dramatic losses. Conversely, investors holding high quality U.S. Treasury intermediate and long term bonds and fixed income mutual funds experienced one of the best periods of performance for this particular asset class. Bond holders benefitted from the inverse relationship between the price of a bond and the direction of prevailing interest rates. When interest rates go down as they did over the previous two years, then the price of a bond goes up. However, this phenomenon is a double-edged sword. When interest rates reverse course and move up, then the price or value of your bond tends to go down. Lately, the bond market has shown us that future hikes in interest rates are coming and the price of bonds have begun to decline in anticipation of these future events. I recommend that if you are still holding long or intermediate term bonds, that you buy high quality short-term government bonds, Treasury Inflation Protected government bonds or similar bond mutual funds instead.

The recent rise in interest rates is an effect of another government policy: deficit spending. People in increasing number are now aware that large budget deficits and an even larger national debt force the government to print more dollars to pay for the budget shortfall and service the existing debt respectively. The increasing supply of dollars has a cost to investors and taxpayers. The debasement or devaluation of our national currency is the root cause of higher inflation and the loss of your purchasing power. Simply stated, the more dollars the government prints, the less your dollars are worth and the less you can buy with the dollars you have saved and invested.

The next new thing to consider is to outpace inflation with your investments over the coming decade. To accomplish this task, experience has told us that we must invest in assets which carry risk. Historically, investing in stocks and equity mutual funds carry the type of risk necessary to overcome the silent tax of inflation, but stocks may not be enough. Experts agree that the American consumer has reigned in his spending and corporations have deleveraged and reduced investment in anticipation of a continued weaker demand for goods and services. This will contribute to smaller profits and modest gains in the stock market. Additionally, we know that the performance we enjoyed from bonds and other fixed income mutual funds will not be repeated for many years. Which risky asset(s) will you need in your investment portfolio and financial life to keep pace with or outperform inflation? Oil, gold, natural gas, venture capital, performing real estate, silver, fine art, private equity or collectibles?

The same money you spend in retirement will be earned from what you save today. We recommend you review the savings plan calculation and investor profile questionnaire annually and call us to discuss your investment selection especially before making changes. **Contact us at Piedmont (1-800-453-2056) if you have any questions about how to invest for your future.**

(over)

William J. Militello, CIMA, AIFA

William J. Militello experienced Wall Street first hand as an institutional equity trader with Knight Capital Markets in New York, and currently serves as the Managing Principal of Piedmont, an SEC registered investment advisor. Mr. Militello has consulted for the Securities & Exchange Commission and is a graduate of the U.S. Naval Academy in Annapolis, MD, and received his MBA from Boston University. He is a Certified Investment Management Analyst (CIMA) and a member in good standing with the Investment Management Consultants Association (IMCA). Additionally, Mr. Militello is a volunteer with the Evelyn Brust Financial Research and Educational Foundation, where he provides unbiased, professional investment advice on a pro bono basis.

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Featured below is a table of performance figures. The figures represent a comparison between the investment performance of Piedmont's managed model portfolios versus well-known stock market indices (i.e.: the S&P 500 and the MSCI EAFE). I continue to believe that managed portfolios that are broadly diversified, low-cost and follow the tenets of Modern Portfolio Theory will perform better than an unmanaged index and individually managed discretionary accounts.

Periodic Performance

Monthly: 05/1998 - 06/2009

Data Series	YTD	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception	Annualized Std. Dev. Since
Ultra Conservative Portfolio	3.49	6.01	3.49	(1.25)	4.61	4.66	6.11	5.97	4.92
Conservative II Portfolio	3.67	9.21	3.67	(8.15)	0.96	3.39	5.37	5.38	6.97
Balanced Portfolio	4.03	11.44	4.03	(11.40)	(0.71)	2.86	5.02	5.14	8.57
Growth & Income Portfolio	3.91	13.59	3.91	(14.95)	(2.65)	2.15	4.64	4.80	10.25
Growth Portfolio	3.89	16.60	3.89	(21.47)	(6.37)	0.69	3.71	4.02	13.68
MSCI EAFE Index (net div.)	7.95	25.43	7.95	(31.35)	(7.98)	2.31	1.18	9.06	17.16
S&P 500 Index	3.16	15.93	3.16	(26.22)	(8.22)	(2.24)	(2.22)	9.60	19.22
Three-Month US Treasury Bill Index	0.10	0.05	0.10	0.95	3.25	3.17	3.24	6.31	1.05

Performance Disclosures

1. *The results portrayed are model results for the period 4/1/07 to present. Results prior to this date are hypothetical. There are limitations inherent in model results, particularly the fact that such results do not represent actual trading and that they may not reflect the impact that material economic and market factors might have had on the adviser's decision-making if the adviser were actually managing clients' money.*
2. *The results portrayed are net of investment advisory fees. A fee of 1.5% per annum was used to calculate the net of fees results. The fee schedule is in Part II Form ADV.*
3. *The results portrayed reflect the reinvestment of dividends and other earnings.*
4. *The models are compared to the S&P 500, One-Month US Treasury Bill Index and the MSCI EAFE (gross div.). The S&P 500 index is a non-managed selection of equity securities, which assumes reinvestment of dividends and has no trading costs, management fees or expenses, which would reduce the return. The S&P 500 is widely used as a benchmark and is widely recognized as representative of the broad general market for domestic equities. The MSCI EAFE Index is recognized as the pre-eminent benchmark in the U.S. to measure international equity performance. The One-Month Treasury Bill Index is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one month.*
5. *For various reasons (tax, personal preference, restrictions, etc.) some clients of the adviser may have had investment results materially different from the results portrayed in the model.*
6. *The portfolio models are allocated among a group of mutual funds consisting of equity and fixed income funds depending on risk tolerance. The asset allocation for each model is available upon request.*
7. *The conditions, objectives or investment strategies of the model portfolio did not change materially during the time period portrayed.*
8. *Some of the mutual funds used in these model portfolios are currently not being recommended by the adviser.*
9. *It is not our intention to indicate that past performance is any indication of future results. As with any investment, returns will vary and there is a potential to lose money.*

In Memoriam:

This newsletter is dedicated to ***Cooper***, the greatest Bullmastiff who ever lived.
Ever faithful–Always loyal–He will truly be missed.

"The greatness of a nation and its moral progress can be judged by the way its animals are treated."
Mahatma Gandhi, October 1, 1998