

# Perspectives

OCTOBER 2008

## HOW DID WE GET HERE AND WHAT CAN WE DO ABOUT IT?

**F**ear rules the day in news broadcasts on television and in the newspapers. Perhaps it was inevitable that the alarm in the media would raise such a sense of anxiety in our minds that Americans would panic, sending everyone to the exit door at the same time. It is a shame that television is a 'for-profit' business that obtains greater viewership and more revenue per commercial as a result of waxing more sensational in its portrayal of current events. The media's publishing of inflammatory statements in its quest for ratings serves only to add fuel to the fire of investors' anxiety and causes people to abandon discipline in making ill-timed, emotionally charged decisions regarding their retirement savings plans. While our media is collectively culpable, they are not the only ones responsible for this mess.

Why do you suppose we as Americans spend more time planning our next family vacation than we do planning how we are going to be able to pay for retirement? We give even less scrutiny to our greatest expenditure of all: taxes. Taxes in all forms make up one-third or more of our gross income, clearly a greater amount than we spend on any other single household budget item. Yet we are passive and permit fewer than 600 Congressmen and Senators to spend trillions of dollars of our money without holding them

accountable. We have a justified expectation that they act as good stewards of one-third of our income; after all, most Americans work the first four months of the year just to pay their taxes--they begin to work for themselves and their families sometime in May or later.

We expect our elected officials to have our best interests at heart, but they attach special interest group 'earmarks' to Appropriations Bills. We expect our elected officials to make prudent financial decisions for us but they cannot balance a budget. We expect our elected officials to provide oversight of the banks and lending institutions entrusted with the remainder of our hard-earned money after taxes but the root cause of the problem is our misplaced trust in financial professionals.

Do you remember Enron? On October 24, 2001, following Enron's conference call to address investor concerns, the Lehman Brothers analyst covering Enron put out his own version of the conference call. He called it "an inadequate defense of the balance sheet," but then concluded "despite the disappointing call we continue to think the stock should be bought aggressively at these levels." Lehman Brothers also kept its highest rating on the stock.

Seven years later, on October 6, 2008, Rep. Henry Waxman, the Democratic chairman of the U.S. House of Representatives Committee on Oversight and Government Reform,

called Lehman Brothers, Inc. CEO Fuld and former chief executives of insurer American International Group Inc to appear at hearings into the financial excesses that led to the collapse of the companies. "Lax oversight and reckless investments on Wall Street are causing massive disruption throughout our economy," Waxman said in a statement on the committee's website. "Our hearings will examine what went wrong and who should be held to account."

The company I founded, Piedmont Investment Advisors, is an authentic accredited investment fiduciary. As thought-leaders in the financial services industry, we are considered pioneers in our role as fiduciaries to corporate 401(k) plans and we take this responsibility very seriously. In fact, our founding was predicated on the fact that there was no brokerage or insurance company with an incentive to tell people the truth about money and their investments. Part of the reason that I left Wall Street and began investment consulting was the amount of poor and self-interested advice that was being issued by brokerages and their analysts.

We should demand a high degree of trust and accountability from those people who can affect our financial well-being. Additionally, as you've heard me say before, the proffered business model should provide

*(over)*

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*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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for full disclosure and transparency to help ensure that honest people conduct themselves honestly. And if this scenario seems improbable, it's not--it is already law and has been since 1940. The law is called the Investment Advisors Act of 1940 and it was designed to provide investors access to a prudent expert legally accountable - a fiduciary. A fiduciary is simply a prudent expert who acts solely in your best interest without bias or conflict. Imagine a world where all financial professionals worked in your best interest and in a climate of full transparency!

A legal investment fiduciary was created after the 1929 stock market crash as an alternative to the stock broker, insurance agent or financial adviser whose financial agendas and commission-oriented business models placed them at odds with the best interests of their clients. After Americans lost their fortunes in the 1929 crash they demanded that the professionals from whom they received financial advice be held accountable to this new high standard, i.e., that of fiduciary.

As consumers of financial products we need to make use of the laws already on the books. Each of us has a vote

that counts. Our individual vote is a referendum on fairness, accountability and transparency. The vote is cast each time we buy a financial product. Do you buy from someone whose compensation is undisclosed and whose motivation is unclear as to why one particular product is recommended over another, or from someone whose compensation is not based on the product you buy, is obligated to act in your best interest and accepts this legal responsibility in writing? The choice and risk are yours, so choose well.

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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 conclude that managed portfolios that are broadly diversified, low-cost and follow the tenets of Modern Portfolio Theory perform better than an unmanaged index and discretionary accounts.

### Comparative Performance 05/1998 - 09/2008

Data Series	YTD	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years
Piedmont Ultra Conservative Portfolio	0.44	-2.11	-1.44	-1.37	2.71	4.79	5.32
Piedmont Conservative II Portfolio	-3.73	-3.67	-2.75	-3.30	-3.56	3.85	6.15
Piedmont Balanced Portfolio	-5.95	-4.51	-3.50	-4.36	-6.68	3.40	6.62
Piedmont Growth & Income Portfolio	-8.11	-5.30	-4.21	-5.43	-9.80	2.90	7.07
Piedmont Growth Portfolio	-12.29	-6.85	-5.45	-7.34	-15.69	1.80	7.81
Index MSCI-EAFE (European Stock Market)	-32.38	-16.50	-22.24	-25.91	-33.05	7.57	7.34
Index S&P 500 (U.S. Stock Market)	-29.27	-13.52	-17.28	-24.49	-33.64	2.66	5.92
Index One-Month US Treasury Bills	1.33	0.00	0.28	0.81	2.28	3.90	3.03

#### Performance Disclosures

- 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.
- 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.
- The results portrayed reflect the reinvestment of dividends and other earnings.
- 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.
- 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.
- 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.
- The conditions, objectives or investment strategies of the model portfolio did not change materially during the time period portrayed.
- Some of the mutual funds used in these model portfolios are currently not being recommended by the adviser.
- 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.