



Park Piedmont Advisors LLC

Registered Investment Advisor

Helping to Achieve Clients' Goals with Indexed Investments

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FEBRUARY 2009 COMMENTS

FEBRUARY 2009 MARKET ACTIVITY (ending Friday, February 27th)

During the month of February, US and INTERNATIONAL STOCK prices continued their significant declines, basically returning to their low levels of November 2008. BOND prices posted modest, mostly fractional declines. (Month and YTD Stock and Bond results are on page 2). As with last month, accounts dominated by stocks should show declines approximating 10%, whereas accounts dominated by bonds and other income-oriented investments should show little change. Accounts with a mix of stocks and bonds/income-oriented investments should show results within these two ranges; the higher the percentage of bonds/income-oriented investments, the better the result. Note also that during periods when the dollar value of accounts decline, the same percentage decline causes a lesser amount of dollar decline (10% of \$900,000 is less than 10% of \$1 million).

With the markets looking to the US government for solutions to the ongoing financial problems and the worsening recession in economic activity, the February market results were a vote of no-confidence so far. The newly enacted stimulus plan, and the various ideas to revitalize the large US banks, have not been well received in the markets, but only time will tell whether some mix of programs will create conditions for an economic recovery.

As you know, we are major proponents of the view that investing is a long term process, that no one knows in advance when markets will enter periods of significant declines and/or significant gains, and that staying the course with an appropriately allocated investment portfolio is the preferred approach compared to trying to outguess the market's moves.

These subjects will be discussed again in depth starting on page 6, citing a number of current articles and other material from well-known market participants and observers

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Any recommendation contained in these Comments may not be suitable for all investors. Moreover, although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed.

COMMENTS: INDEX RESULTS for period ending FEBRUARY 2009

	<u>YEAR</u>	<u>YEARS</u>	<u>YEARS</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YTD</u>	<u>FEB</u>
<u>STOCKS</u>	<u>1999</u>	<u>2000-02</u>	<u>2003-05</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>
Vanguard Total Stock Market Index Fund (1)	23.8%	(37.2%)	53.1%	15.5%	5.5%	(37.1)%	(17.8)%	(9.5)%
Standard & Poor's (S&P) 500 Index (2)	19.6%	(40.1%)	41.9%	13.6%	3.5%	(38.5)%	(18.6)%	(10.0)%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(48.4%)	41.8%	9.0%	12.6%	(38.4)%	(11.6)%	(7.0)%
Vanguard S&P 500 Value Index Fund (1)	12.6%	(26.2)%	63.2%	22.1%	0.1%	(36.1)%	(23.3)%	(12.3)%
Dow Jones Industrial Average Index (2)	25.2%	(27.5%)	28.5%	16.3%	6.4%	(33.8)%	(19.5)%	(10.7)%
NASDAQ Composite Index (2)	85.6%	(67.2%)	65.2%	9.5%	9.8%	(40.5)%	(12.6)%	(6.2)%
Vanguard Midcap US Index Fund (1)	25.0%	(18.3%)	83.9%	13.6%	6.0%	(41.8)%	(15.9)%	(8.9)%
Vanguard Smallcap US Index Fund (1)	19.6%	(24.2%)	87.5%	15.6%	1.2%	(36.1)%	(21.0)%	(10.8)%
Vanguard International Index Fund (EAFE) (1)	25.3%	(45.9%)	95.9%	26.6%	15.5%	(44.1)%	(20.4)%	(8.4)%
Vanguard Emerging Markets Index Fund (1)	61.6%	(29.5%)	162.7%	29.4%	39.0%	(52.9)%	(13.8)%	(5.6)%
Vanguard Real Estate Investment Trust Fund (1)	(0.4%)	47.5%	98.6%	35.1%	(16.5)%	(37.2)%	(34.5)%	(17.5)%
<u>BONDS</u>								
Vanguard Total Bond Market Index (1)	(0.8%)	30.4%	11.1%	4.2%	6.9%	5.1%	(1.1)%	(0.4)%
Vanguard Intermediate Tax- Exempt Index Fund (1)	(2.9%)	23.7%	10.3%	4.4%	3.4%	(0.1)%	3.2%	(0.5)%
Vanguard Short-term Bond Index (1)	2.1%	25.8%	6.5%	4.1%	7.2%	5.4%	(0.2)%	(0.4)%
Vanguard Short Tax- Exempt Index Fund (1)	2.6%	13.8%	4.5%	3.2%	4.2%	3.7%	0.9%	0.0%
Vanguard High-Yield Bond Fund (1); starting 2002	NA	1.7%	30.7%	8.2%	2.0%	(21.3)%	2.6%	(3.1)%
Vanguard Inflation-Protected Bond Fund (1); starting 2001	NA	25.5%	20.0%	0.4%	11.6%	(2.9)%	(0.7)%	(1.7)%

NOTE 1: Current Month Results measured from beginning of year, and not beginning of prior month.

NOTE 2: Three-year results start with a base of 100, and after each year's % change, the result for that year creates a new base. So if at the end of the first year the index is up 10%, then the new base is 110%; and if down 10%, then the new base is 90%. NOTE also that a decline of 50% requires a gain of 100% to get back to the starting value, which explains why NASDAQ, down 67%, would require a gain of 200% to get back to its starting value.

- 1) Results for Vanguard funds include dividends and fund expenses but do not reflect PPA's advisory fee.
- 2) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's advisory fee.

%	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
		<u>1999</u>				<u>2000</u>				<u>2001</u>			
S&P 500	4.1	7.6	(7.7)	15.6	2.0	(3.0)	(1.3)	(7.8)	(12.1)	4.8	(13.8)	8.1	
NASDAQ	14.6	10.0	0.0	61.0	12.4	(14.8)	(7.2)	(29.6)	(25.5)	12.9	(26.7)	18.3	
BONDS	0.0	(0.5)	0.4	(0.7)	2.4	1.5	3.1	4.3	3.2	0.8	4.3	0.0	
		<u>2002</u>				<u>2003</u>				<u>2004</u>			
S&P 500	0.0	(13.8)	(14.1)	4.5	(1.8)	12.8	2.2	13.2	1.3	1.3	(2.4)	8.8	
NASDAQ	(5.5)	(19.5)	(13.5)	7.0	2.5	19.2	12.1	16.2	(0.5)	2.7	(7.5)	13.9	
BONDS	0.0	2.8	3.6	1.8	0.9	2.7	0.2	0.2	2.7	(2.6)	3.1	1.0	
		<u>2005</u>				<u>2006</u>				<u>2007</u>			
S&P 500	(2.6)	0.9	3.1	1.6	3.7	(1.9)	5.2	6.6	0.2	5.8	1.6	(4.1)	
NASDAQ	(8.1)	2.6	4.4	2.5	6.1	(7.6)	3.9	7.1	0.3	7.5	4.0	(2.0)	
BONDS	(0.5)	3.0	(0.7)	0.6	(0.7)	(0.2)	3.8	1.3	1.4	(0.6)	2.9	3.2	
		<u>2008</u>				<u>2009</u>				<u>2010</u>			
S&P 500	(9.9)	(2.9)	(7.9)	(17.7)									
NASDAQ	(14.1)	0.6	(8.0)	(19.0)									
BONDS	2.2	(1.1)	(0.5)	4.5									

STOCK index prices for US and International indexes continued their significant declines during February, for the fifth month out of the last six months, since September 08. The major indexes declined in a range of -(6.4%) for the NASDAQ Composite to -(10.7%) for the Dow Jones Industrials. The YTD figures range from the NASDAQ at -(12.6%) to Total International at -(20.4%). (See pg. 2 and chart on page 5 for additional details).

BOND returns (price change plus interest) were mostly fractionally lower in February, following mostly positive results in January. Unlike the September-November 2008 period, when most bond prices (other than US Treasuries) fell sharply, the current period is showing more normal bond returns. The benchmark 10-year US Treasury yield closed at 3.03%, which was 78 bps higher than December's historically low close of 2.25%. Short-term US Treasury yields remained at almost zero, as the Federal Reserve kept its short-term rates at that level. In general, as interest rates move lower, prices for existing bonds rise. During September-November 2008, however, the credit quality issues impacting various parts of the credit markets altered this normal relationship of interest rates and prices. However, the December 2008-February 2009 period has shown a return to more normal bond pricing.

ECONOMIC NEWS continued mostly negative, with the final GDP figure for Q4 adjusted down to -(6.2%) annualized rate, "the steepest drop-off since the depths of the 1982 recession" (WSJ, 2/28-3/1/09, front page). Declines continued in employment, housing prices, consumer spending, and durable goods orders, although retail sales had a small gain. The key question now is the recession's duration and severity, since it has spread internationally as well. The answer appears to depend on the success of governments' efforts at economic stimulus, and restoring the banking system to some degree of normalcy. Positive news included continuing low oil prices and low inflation. While there is some discussion of possible deflation, governments' huge infusions of money into various programs designed to reignite economic activity are likely to add to inflation at a future time.

From a longer-term standpoint, the bear market in stocks which began in October 2007, accelerated dramatically starting in September 2008, and has continued to this date, has now reached historic proportions. The major US indexes are back to levels last seen in 1997. All the stock gains from the 2003-07 recovery from the bear market of 2000-02 are gone. From the 2000 highs to February 2009, the Dow Industrials are now 40% lower, the S&P 500 52% lower, and the NASDAQ a stunning 73% lower. The decade of the 2000s is likely to be the first one since the 1930s with cumulative annualized negative stock returns, making these returns obviously far lower than their positive long-term average annualized returns of 9.6% (a figure recently updated by Ibbotson/Morningstar to cover 1926 through 2008). Going back to the bull market that began in 1995, all three major indexes have similar (and, since September 2008, much lower) average annual returns, ranging from 3.4% to 4.4%. The mutual fund company Vanguard notes that from 1926 through 2008, in only six of 83 years did stock prices fall within 2%, up or down, of the long-term annual average return of +9.6%.

The moral: Stock returns are truly unpredictable and volatile in short time frames, and can be over long time periods as well, even with (so far) a fairly stable very-long-term average return. Key Questions: Your relevant time frame and tolerance for risk.

	<u>S&P 500 (1)</u>		<u>DOW (1)</u>		<u>NASDAQ (1)</u>	
1st Qtr 2000 High	1,527		11,723		5,048	
Year End 2000	1,320	(13)%	10,785	(8)%	2,470	(51)%
September 21, 2001 Low	965	(37)%	8,235	(30)%	1,425	(72)%
Year End 2001	1,148	(25)%	10,020	(17)%	1,950	(61)%
October 9, 2002 Low	777	(49)%	7,286	(38)%	1,114	(78)%
Year End 2002	880	(42)%	8,342	(29)%	1,336	(73)%
Year End 2005	1,248	(18)%	10,718	(9)%	2,205	(56)%
Year End 2007	1,468	(4)%	13,265	+13%	2,652	(47)%
November 20, 2008	752	(51)%	7,552	(36)%	1,316	(74)%
December 31, 2008	903	(41)%	8,776	(25)%	1,577	(69)%
Feb 27, 2009, New Lows	735	(52)%	7,063	(40)%	1,378	(73)%

Context: Prior Five-Year Gains in Bull Market of 1995 - 1999

	<u>S&P 500 (1)</u>	<u>DOW (1)</u>	<u>NASDAQ (1)</u>
End 1994	459	3,834	752
End 1999	<u>1,470</u>	<u>11,500</u>	<u>4,070</u>
Gain	1,011	7,666	3,318
Avg. Ann. % Gain: '95-'99; 5 years	26.2%	24.6%	40.2%
February 2009	735	7,063	1,378
Gain	276	3,229	626
Avg. Ann. % Gain: '95-12/08; 14.2 yrs	3.4%	4.4%	4.4%

1) Results for S&P 500, Dow Jones, and NASDAQ indexes do not reflect dividends or PPA's fees.

INVESTMENT CONCEPTS

The chart below has been updated monthly to reflect the extreme stock market volatility since the summer of 2007. What appeared extreme in late 2007 and early 2008, however, has turned out to be a mild prelude to the declines of Sep.-Nov. 2008, and Jan.-Feb. 2009.

	<u>S&P</u> <u>500</u>	<u>Change</u> <u>from</u> <u>YE06</u>	<u>Dow Jones</u> <u>Industrials</u>	<u>Change</u> <u>from</u> <u>YE06</u>	<u>NASDAQ</u>	<u>Change</u> <u>from</u> <u>YE06</u>
YE 2006	1,418	-	12,463	-	2,415	-
10/9/07 High	1,565	10.4%	14,165	13.7%	2,859	18.4%
12/31/07 Close	1,468	3.5%	13,265	6.4%	2,652	9.8%
1/22-23/08, and 3/17 Lows*	1,257	-11.3%	11,635	-6.6%	2,155	-10.8%
5/31/08 Close	1,400	-1.3%	12,638	1.4%	2,523	4.5%
10/10, and 10/24 Lows*	840	-40.7%	7,882	-36.7%	1,494	-38.1%
10/31/08 Close	969	-31.7%	9,325	-25.2%	1,721	-28.7%
11/21/08 Low*	741	-47.7%	7,449	-40.2%	1,295	-46.4%
12/31/08	903	-36.3%	8,776	-29.6%	1,577	-34.7%
2/27/09	735	-48.2%	7,063	-43.3%	1,378	-43.0%

* Note – These are not closing prices, but "intra-day" lows

Some key observations from the chart:

- 1) From the October 2007 highs to the new February 09 lows, all three major US indexes are down a huge 50% to 53%, exceeding the declines of 1973-74 and 2000-02.
- 2) October 2007, May 2008, and the last week in October 2008 were all periods of price recoveries of 10% or more. The December 2008 price recovery, measured from the November lows, ranged from 18% to 22%, but the most recent January-February declines have eliminated all of these gains and reached new lows. The recoveries illustrate the dangers of exiting the stock market after periods of substantial declines on the assumption the declines will continue, and also about using periods of gain as entry points. During this bear market, with the benefit of hindsight, no rally up to now would have been a good entry point
- 3) Even knowing what we know now about the severity of this bear market, there is no way to determine, before the fact, at what point the lows for this market cycle will have been reached until long after the cycle has been completed.

I. Taking the Long-term View of Investment Results (Continued from Last Month)

As broad-based stock market indexes continue their historic declines, to levels last seen as far back as 1997, and as investors become more and more disheartened in reaction to these declines, this month's Comments will once again focus on what we, and others, suggest as ways to consider and deal with what is happening.

1) Investing is a process that takes place over extended periods of time, whether the money being invested is likely to be used during your lifetime, or extend to the lifetimes of others. It is not a weekly or monthly activity, and should not be measured that way. When many account balances reached their historic highs during 2007, after five consecutive years of higher market prices, there was still the unknowable future to contend with. And now, in the midst of the 2008-09 severe market declines, there is still the unknowable future to contend with. In this regard, we refer you to David Swensen's observation, reported in recent Comments, that no one is entitled to the highest values their investment accounts ever reached, unless they were to sell all their investments at precisely that time.

2) If you are working and earning money to meet your life style expenses, or if you have sufficient investment capital allocated to high credit quality, income producing investments to meet at least five years of your anticipated spending needs, then the market price movements on investments with high growth potential and high risk should not affect your current financial well being. This is because you do not need to sell those high growth potential/high risk investments to meet current expenses.

3) Since everyone knows the current and near-term economic and financial news is likely to continue negative, the question of the longer-term future price movements shifts to whether you believe government's efforts to stimulate the economy and repair the financial system are going to be successful. The answers are still unknowns, but some fair amount of time needs to be given to these efforts before reaching a conclusion as to their degree of success (see material cited on pages 7 and 8).

4) The history of periods of severe market price declines points to recoveries; this is not a given, however, as history may or may not repeat. But if you give up on the allocation you have to the growth-oriented, riskier investments in your overall portfolio, you are left with reinvesting proceeds in much lower-yielding (albeit safer) investments, which then precludes you from benefiting from a price recovery, if and when this occurs. This is the risk-reward balance that always needs to be struck in developing an appropriate asset allocation. Our advice is that if you do not anticipate needing money from your portfolio in the foreseeable future, or if you have at least five years of anticipated spending covered with high credit quality, income producing investments, then you should maintain your allocation to the riskier, growth-oriented investments. (Note, we are disregarding the likelihood of anyone successfully timing the markets; that is, being out when prices decline, and back in when prices recover).

The following are excerpts from current material written by well regarded investment professionals, discussing the likelihood of market price recoveries on the growth oriented, riskier assets part of the markets.

The first material was written by Fisher Investments, an investment advisory firm with many billions under management. The principal, Ken Fisher, writes a regular column in Forbes Magazine, and recently wrote a book on investing, "The Only Three Questions That Count." The quoted material comes from the Executive Summary section (page 1), unless otherwise indicated.

"Weak economic news seems endless these days, but it's important to cling to two crucial facts. First, every bear market is followed by a bull market, which ends up being bigger than many people expect. Second, stocks routinely rebound in advance of an economic recovery while the economy is, in fact, still contracting with no apparent end in sight. Having just experienced a very severe bear market, which has made stocks unusually cheap, we are optimistic the stock market will rebound strongly this year, maybe immediately, maybe not, but rebound nonetheless. That doesn't mean 2009 won't be tumultuous. We expect recession will continue through at least mid-year. But as a discounter of future conditions, the stock market should begin rising even as high volatility continues and the thrum of bad news drones on. Historically, bear markets end long before economic data improves – new bull markets climb a 'wall of worry.'"

"While it may seem like we're headed for a new 'Lost decade' like Japan in the 1990s, or worse still, a new Great depression, we do not think so. Stories like that are always ever-present in such times. Underpinning our optimism is simply the biggest combined global monetary and fiscal stimulus in history....Such measures will take many months or even years to manifest their full effect. Government-induced stimulus can be clumsy, messy and slow-moving. But the massiveness of the recent and coming programs gives us confidence a repeat of the Great depression or Japan's 'Lost decade' is extremely unlikely (page 17)... The US budget deficit ballooned in 2008 and will further in 2009. By our analysis the government could take on much more debt to stem financial sector woes and stimulate the economy and markets... Late last year inflation worries morphed into deflation fears following the financial panic and subsequent economic seizure. However, we cannot find a meaningful, lasting instance of deflation anywhere following a period like today's massive monetary expansion. In our view, inflation is the far more likely dominant force – but not emerging as a risk for several years."

"Timing the bottom precisely isn't crucial to long-term portfolio success. What matters more, as we have long advised, is positioning portfolios to capture the initial surge of a new bull market, even if that means absorbing the heavy volatility around a bear market bottom.... We expect stocks will do as they have always done historically and rally well before the economic recovery registers in government data or is broadly felt by the public.... Forecasting markets is grounded in probabilities, not certainties. History is the only rational way we know to begin assessing reasonable probabilities for what might happen in the future... But an assessment of history is only a jumping-off point. From there, we layer on conclusions drawn from economic and finance theory and then shade probabilities based on our analysis of new and unique factors" (pages 4 and 5).

The next material appeared in the WSJ (2/25/09, D2), in a column written by James Stewart, who writes a regular column titled "Common Sense." He writes, "Everywhere I go lately, I've been pummeled with the same question: 'When will the market bottom?' It's usually asked in a tone of high anxiety, if not desperation... The short answer is, 'I don't know.' I have always steadfastly refused to predict where markets are headed in the short term. My premise is that the past is knowable; the future is not. Since this seems manifestly unsatisfactory to everyone asking the question, let me rephrase it... First, it's possible that the market already has bottomed... But let's assume that the market hasn't bottomed and will reach still deeper lows. If you knew that for a certainty, would you sell all your stocks now? If you did, you could park the proceeds in something safe, like short-term treasuries, currently yielding practically nothing, or money market funds, barely yielding 1%. You could then wait until the market hits another low. Then what? Do you buy back in? Do you wait in anticipation of even lower lows? The problem is that at every milestone, the future is no more knowable than it was at the previous one. If you're a long term investor, to profit from selling now requires an accurate assessment of when to buy back in... In other words, you have to be right twice, about something that no one can know with any certainty. You can pursue this strategy if you wish, but don't pretend it's anything but rolling dice – twice."

The column continues: "Of course if you believe that the market will never recover, you should sell. That requires a complete loss of faith not just in the stock market, but in the productive capacity of all mankind... Since records have been kept, stocks have outperformed every other investment category... Given the tendency of stock prices to rise over time, the biggest risk for most investors is to over-allocate to cash and miss rallies, which can be swift and sudden. Given the current gloom about the economy and the markets, the risks of being underexposed to stocks now strikes me as especially acute... I've been seeing some positive glimmers when it comes to fundamentals, especially greater liquidity in the financial system, something of a rally in corporate bonds – even junk –, and some firmness in commodity prices. People may quarrel about the details, but the large stimulus package, a comprehensive approach to the banking and financial system, a sensible approach to the foreclosure crisis, and an apparent willingness to confront the reality of the auto industry all strike me as important positive steps from Washington."

The next article we would like to present was written by Jason Zweig, in his Intelligent Investor column (WSJ, 2/26/09, D1). The main point of the article is that "What history shows, however, is that the road to recovery from a catastrophic bear market can be distressingly long..." Based on long term investment returns using reliable data from 17 stock markets around the world all the way back to 1900, compiled by London Business School Finance Professor Elroy Dimson and his colleagues, "Prof. Dimson estimates, we'll have to wait nine more years before the Dow Average, including dividends, has a 50% chance of hitting its 2007 highs... Since 1900, there have been four global bear markets in which stocks have fallen by at least 40%, adjusted for inflation. Two have occurred in the past nine years. Stocks are risky not merely because their returns are variable, but because they can wipe you out at various points along the way (Our note: That is why we advocate appropriate allocations to investments other than stocks). That's the price you must pay – often at the worst possible time, and never with a moment's notice – for the hope of higher returns in the end. That hope is real and valid. It is also uncertain."

The article continues: “Nor are Prof. Dimson’s findings quite as discouraging as they sound at first. If there’s an even chance that the Dow will nearly double in nine years, that implies a total return of 7.1% per year, which isn’t exactly chicken feed. Since 1900, US stocks have averaged a 6% annual return after inflation. If you knew nothing else – and none of us do – then that should be your forecast of the return on US stocks over the long term. That’s measured in decades. In the short run, as just about every investor now realizes, anything can happen.” (Our note: We make this point every month in these Comments, on page 4, and it is why we advocate that clients who need money from their portfolios have at least five years worth of withdrawals in high credit quality, income producing investments). Note also that the Fisher Investment material observes that “bear markets typically bottom and recover in a “V” shape – a steep, final drop followed by a similarly steep upward burst. Late-stage bear market’ vicissitudes are typically quite small compared to the initial uplift of the subsequent bull markets” (page 1, Executive Summary). (Our note: The views of Fisher and Prof. Dimson can be reconciled in that Fisher is referring to the early stages of a recovery, whereas Dimson is referring to a longer-time period, in which all the prior declines are recovered).

A fourth current point of view comes from Mark Kingdon, who manages a multi-billion dollar hedge fund. In his 2/12/09 Outlook, he writes: “Don’t fade a focused Fed – unless it is politically hamstrung. Efforts to unthaw the credit markets have already had some positive results. The downward, self-reinforcing spiral of deflating asset prices, corporate and mortgage credits, and equities is starting to reverse... With all its faults, the US stimulus package will likely be approved this month and should produce a significant boost to GDP as early as the June quarter. Global equity markets appear to be forming a bottom. Continuation of these favorable trends is contingent, in part, on a well executed restructuring of the financial services industry. Unfortunately, public anger at bankers and mismanagement of TARP I have poisoned the atmosphere for further, substantial measures... Funds to recapitalize the financial system will eventually be made available, but we are unlikely to see a simple, clean good bank/bad bank scenario like 1933 America or 1991 Sweden. Debt and equity markets will remain extraordinarily whippy in this environment. Nonetheless the healing process has begun, both here and abroad.”

A final piece of news, rarely reported, but the subject of a WSJ “Heard on the Street” column (2/21-22/09, B12), relates to the huge amount of money currently in “bank accounts and money market funds earning next to no interest... Cash holdings – defined as checking and savings accounts and money market funds, but not time deposits – have soared to \$9.35 trillion, which was 84% of US stock market value last month, compared to 43% a year ago,...and since 1960, has averaged 66%.” The article then discusses whether this cash is likely to go back into the stock market, “if people have lost faith in the stock market... Investor preferences, which used to tilt decidedly toward stocks, have changed, possibly for a long time; ... extra cash could well go to paying off debt rather than taking risks.” While the article may or may not reach a correct conclusion about where this cash might go, it is a fact that there is a high level of very low-yielding cash currently on the sidelines.

You should realize by now that we have presented points of view that support our thinking and advice. We think this is appropriate, since so much of the daily reporting currently stresses the gloom and doom aspects of the situation, rather than the likelihood of recovery.

II. Park Piedmont's (PPA) Business Model, Re-explained

In light of the Madoff and Stanford scandals, we want you to know how Park Piedmont's (PPA) business model differs from the way these frauds conducted their businesses.

1) Most importantly, all our clients receive monthly statements from one of two of the largest custodians in the securities business, Charles Schwab and National Financial Services (NFS), which is wholly owned by Fidelity Investments. These custodians receive any money deposited into your account, hold all the investments that PPA makes to implement the asset allocations PPA developed for you, and make any distributions from your accounts when authorized by you. This means that PPA never has access to your money or your securities; we only place orders for the investments in your accounts, and carry out your instructions regarding deposits and withdrawals. In stark contrast, Madoff and Stanford took client money paid directly to their firms, and were able to perpetrate their frauds from there.

2) The investments in your account are primarily Vanguard index funds and Exchange Traded index funds (ETFs). All of these investments are highly transparent, and their objectives can be explained in one or two sentences. This is in direct contrast to Madoff and Stanford's unwillingness to clearly explain the investments they were making.

3) The investment returns you achieve are directly in line with the market results for the investments PPA selects to implement your asset allocation. There is no such thing as "too good to be true" returns, which characterized the Madoff and Stanford frauds.

4) PPA's basic business model is to develop an appropriate asset allocation for each client's individual needs, and then implement that allocation with low cost, indexed investments. Further, our annual fees, at ½ of 1% of assets managed, are as low as you are likely to find for qualified, independent investment advice. A recent NY Times article pointed out, once again, the advantage of working with index funds in implementing an investment portfolio. (NYT, 2/22/09, Sunday Business section, page 5, Mark Hulbert column). "There's more evidence that it makes sense to invest in simple, plain-vanilla index funds, whose low fees often lead to better returns than hedge funds and actively managed mutual funds with more impressive performance numbers....In a miserable year for stocks, index funds may not look very appealing, but it turns out that, after fees and taxes, it is the extremely rare actively managed mutual fund or hedge fund that does better than a simple index fund... Mr. Kritzman, a Professor at MIT (the source of the study cited in the article) calculated that just to break even with the index fund, net of all expenses, the actively managed fund would have to outperform it by an average 4.3% a year on a pre-expense basis, and the hedge fund margin would have to be 10% a year. The chances of finding such funds (in advance, and with any likelihood of persistence) are next to zero."



Victor Levinson



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