



Park Piedmont Advisors LLC

Registered Investment Advisor

Helping to Achieve Clients' Goals with Indexed Investments

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APRIL 2009 COMMENTS

APRIL 2009 MARKET ACTIVITY (ending Thursday, April 30th)

During the month of APRIL, US and INTERNATIONAL STOCK prices showed substantial gains. Many of the gains were large enough to make their YTD results positive, quite remarkable given the depth of the lows reached as recently as March 9th. (Figures for the month and YTD are on page 2; figures tracking the many new lows since the end of 2006 are presented on page 5). Stocks have now registered two months of substantial gains, but whether this improvement in stock prices continues is, as always, subject to the unknown future. Some modest evidence of an improving economy and financial conditions have been offered as rationales for the recent gains, but here again, these factors may or may not continue going forward.

BOND prices were mixed, with high credit quality bonds showing mostly small changes. High yields and preferreds showed large gains, while Inflation Protected bonds declined, based, presumably, on very low current inflation (month and YTD results are on page 2).

As stated in the March Comments, we believe all financial markets continue to take their major cues from government actions intended to improve the economy and the financial system. Success or failure of these programs is the key to improving stock and bond prices. A reading of the history of the American economy's experience during the "Great Depression" shows that many programs were tried, some succeeded, and some did not. That may well be the case in these times.

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. The material starting on page 6 reports on the idea that some investment advisers have changed their disciplines during the substantial declines of 2008 and early 2009, in what may prove to be yet another example of acting on yesterday's news. On pages 7-8, we review the investment disciplines we intend to continue to follow moving forward.

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 APRIL 2009

	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YTD	APRIL
	<u>1999</u>	<u>2000-2</u>	<u>2003-5</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>
STOCKS								
Vanguard Total Stock Market Index Fund	23.8%	-37.2%	53.1%	15.5%	5.5%	-37.1%	-1.3%	9.4%
Standard & Poor's (S&P) 500 Index	19.6%	-40.1%	41.9%	13.6%	3.5%	-38.5%	-3.4%	8.3%
Vanguard S&P 500 Growth Index Fund	28.8%	-48.4%	41.8%	9.0%	12.6%	-38.4%	4.6%	8.8%
Vanguard S&P 500 Value Index Fund	12.6%	-26.2%	63.2%	22.1%	0.1%	-36.1%	-7.2%	9.2%
Dow Jones Industrial Average Index	25.2%	-27.5%	28.5%	16.3%	6.4%	-33.8%	-6.9%	6.4%
NASDAQ Composite Index	85.6%	-67.2%	65.2%	9.5%	9.8%	-40.5%	8.9%	13.0%
Vanguard Midcap US Index Fund	25.0%	-18.3%	83.9%	13.6%	6.0%	-41.8%	4.5%	13.0%
Vanguard Smallcap US Index Fund	19.6%	-24.2%	87.5%	15.6%	1.2%	-36.1%	2.3%	15.8%
Vanguard International Index Fund (EAFE)	25.3%	-45.9%	95.9%	26.6%	15.5%	-44.1%	-1.9%	11.1%
Vanguard Emerging Markets Index Fund	61.6%	-29.5%	162.7%	29.4%	39.0%	-52.9%	16.2%	16.1%
Vanguard Real Estate Investment Trust Fund	-0.4%	47.5%	98.6%	35.1%	-16.5%	-37.2%	-14.6%	17.5%
BONDS								
Vanguard Short-term Bond Index Fund	2.1%	25.8%	6.5%	4.1%	7.2%	5.4%	1.0%	0.5%
Vanguard Short-term Tax-Ex. Bond Fund	2.6%	13.8%	4.5%	3.2%	4.2%	3.7%	1.4%	0.3%
Vanguard Total Bond Market Index Fund	-0.8%	30.4%	11.1%	4.2%	6.9%	5.1%	0.7%	0.4%
Vanguard Interm-term Tax- Ex. Bond Fund	-2.9%	23.7%	10.3%	4.4%	3.4%	-0.1%	4.9%	1.9%
Vanguard High-Yield Bond Fund	NA	1.7%	30.7%	8.2%	2.0%	-21.3%	12.8%	8.2%
Vanguard High-Yield Tax-exempt Bond Fund	-3.4%	25.2%	16.5%	5.5%	1.6%	-10.5%	8.6%	3.3%
Vanguard Inflation-Protected Bond Fund	NA	25.5%	20.0%	0.4%	11.6%	-2.9%	3.3%	-1.9%

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)	(11.7)										
NASDAQ	(14.1)	0.6	(8.0)	(19.0)	(3.1)										
BONDS	2.2	(1.1)	(0.5)	4.5	0.3										

STOCK index prices for US and International indexes showed major gains during April, ranging from 6.4% (Dow Industrials) to 13.0% (NASDAQ) to 16.1% (Emerging Markets). YTD figures range from -(6.9%) for the Dow, to +8.9% for NASDAQ, to +16.2% for Emerging Markets. Growth continued to outperform Value, and the REIT sector, while down YTD, gained 17.5% for the month. In general, stock sectors showed major variations for the year to date, as shown by the 23% spread between the Dow and Emerging Markets.

BOND returns (price change plus interest) were for the most part modestly higher in April and YTD, with high yield bonds showing much larger gains, and US Treasuries (including Inflation Protected) declining. The decline in price for Treasuries is a function of investors now being willing to invest in higher yielding bonds, even without the highest credit quality that comes from US government bonds. The benchmark 10-year US Treasury yield closed at 3.12%, almost a full percentage above 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-April 2009 period has shown a return to more normal bond pricing.

ECONOMIC NEWS continued mostly negative, with unemployment and job losses remaining high and GDP falling a larger than expected 6.1% in the first quarter. However, better than expected corporate earnings, and some signs that certain parts of the economy have hit bottom, created reasons for the improvement in stock prices. The key issue of the recession's duration and severity seems now to depend on the success of governments' efforts at economic stimulus and restoring the banking system to some degree of normalcy.

From a longer-term standpoint, the stock price declines from the October 2007 highs accelerated dramatically starting in September 2008 and reached lows in early March 2009, with the declines approaching 60% from the 2007 highs. The subsequent March and April 2009 rally have now reduced those declines to a range of approximately 30% to 40% (see pg. 5 chart). From 2000 through April 2009, the Dow Industrials are now 30% lower, the S&P 500 43% lower, and the NASDAQ a stunning 66% lower, even as NASDAQ is the current outperformer in the recent stock rally. The decade of the 2000s is almost certain to be the first 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 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, very much lower) average annual returns, ranging from 4.6% to 5.9%. 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, Low	752	(51)%	7,552	(36)%	1,316	(74)%
December 31, 2008	903	(41)%	8,776	(25)%	1,577	(69)%
March 9, 2009 Low	677	(56)%	6,547	(44)%	1,269	(75)%
April 30, 2009	873	(43)%	8,168	(30)%	1,717	(66)%

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%
April 2009	873	8,168	1,717
Gain	414	4,334	965
Avg. Ann. % Gain: '95-3/09; 14.33 yrs	4.6%	5.4%	5.9%

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.- Mar. 9, 2009.

	<u>S&P</u> <u>500</u>	Change from <u>YE06</u>	<u>Dow Jones</u> <u>Industrials</u>	Change from <u>YE06</u>	<u>NASDAQ</u>	Change from <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 & 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%
3/9/09 Low*	677	-52.2%	6,547	-47.5%	1,269	-47.5%
4/30/09	873	-38.4%	8,168	-34.5%	1,717	-28.9%

* 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 March 9, 2009 lows, all three major US indexes were down a huge 60% to 65%, far exceeding the declines of 1973-74 and 2000-2.
- 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 January-March 9th declines eliminated all these gains and reached new lows. The March-April 2009 recovery from the March 9th lows has been best of all, with results ranging from 25% to 35%. These 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 the current rally 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. Investment Advice in Difficult Times

Articles have begun to appear in the financial press and investment advisor trade magazines indicating that certain advisors have changed their long standing advice that clients should maintain their traditional mix of investments designed to implement an appropriately developed asset allocation. Instead, these advisors have moved to a variety of different strategies that they believe can provide improved results. A WSJ article, dated April 29, 2009 (B9) and headlined "Advisers Ditch 'Buy and Hold' for New Tactics," presents the issue as follows:

"The broad decline across financial markets in the past year has persuaded a small but growing number of financial advisers to abandon the traditional buy-and-hold strategy, which emphasizes long term investing in a mix of assets, for a new approach geared to sidestep future market plunges and ease volatility....Buffeted by steep declines in stocks, bonds, commodities and real estate, many advisers are questioning their faith in long standing investment principles, such as controlling risk by building diverse portfolios. Some are adding increasingly exotic investments, including products that offer downside protection, to client portfolios. Others are trading more actively, and say they plan to continue to do so until they see evidence of a new bull market."

The article continues: "To be sure, most advisers are staying the course. They point out that frequent trading leads to higher trading costs and tax bills, and that so called alternative investments come with serious downsides. Because the markets for many of these products are relatively undeveloped, for example, investors may face high fees, poor liquidity and a high degree of complexity. Critics also contend that advisers who scale back on stocks are essentially trying to time the market, and are exposing their clients to another type of risk, that of missing out on future rallies that could recoup recent losses. One advisor is quoted as follows: 'By abandoning time proven prudent techniques, they run a serious risk of destroying their own credibility and their clients' portfolios.'"

The article continues by providing examples of alternative investment products and strategies, and discussing their pros and cons. More importantly, we think the basic issue raised by the article --whether to change a long-held investment process that has worked well in the past-- is worth discussing. We, as other advisers, have found it necessary to review the underlying principles of the advice we provide. In doing so, we have considered many of the alternatives presented in the article, as well as the idea that some approach to investing other than our basic one might now be better. To review, our basic approach is to develop an appropriate asset allocation for each client, and implement that allocation with a broad mix of low-cost, indexed stock and bond investments, along with modest allocations to certain stock sectors and high-yielding income-oriented investments.

More specifically, we refer below to pertinent sections of the Park Piedmont Advisors' (PPA) Investment Policy Statement (IPS), dated July 2007, which is presented to all clients for their review and consideration. (The IPS is available any time at your request).

First, using information provided by our clients about their particular circumstances and objectives, we “agree on an allocation that gives them a reasonable likelihood of accomplishing their goals without exposing them to more investment risk than necessary. We then recommend specific investments, predominantly indexed stock and mutual funds and exchange traded funds, for their accounts” (pg. 1).

We next present a series of Investment Principles (pg. 2), as follows:

- 1) Your asset allocation (i.e., the division of your investments among the three main asset classes -- cash, bonds and stocks) is the major determinant of your investment results.
- 2) You should seek the allocation that meets your specific objectives with the lowest level of risk, and ignore advice that develops allocations based on predictions of near-term future market results.
- 3) Certain investments inherently carry greater or lesser risk; understanding the characteristics of these investments allows you to make allocation decisions that have a reasonable chance of achieving your goals.
- 4) Low-cost, tax-efficient, indexed (also known as “passive”) investments are the best way to implement your asset allocation, as compared to higher-cost “actively-managed” investments, for the following reasons:
 - a) Since the future is unknown, no one can accurately predict the future and no forecast about future market performance is worth following or paying for;
 - b) Paying high fees to active managers who try to outperform the markets, or time the market by buying at certain times and selling at other times, is not worth doing.
 - c) Relying on the past performance, or a track record, of investment results, amounts to buying yesterday's news, and is not a useful methodology.
- 5) Asset allocations are not permanent. They should be revised based on your changing circumstances and/or when market prices move allocations too far from the desired levels (called rebalancing).

These principles are supported by highly respected authors in the investment field. We refer you to the following: “A Random Walk Down Wall Street,” Burton Malkiel; “Unconventional Success,” David Swensen; “The Little Book of Common Sense Investing,” John Bogle; and “Fooled by Randomness” and “The Black Swan,” Nick Taleb.

The IPS continues (pg. 2, first paragraph in the section headed Asset Allocation): “PPA works with you to establish a long-term asset allocation strategy...designed to provide the opportunity to earn an investment return consistent with your current and future needs to use your money, and at an acceptable level of risk. Risk is defined as the likelihood of your portfolio declining in value in a time frame relevant to you, i.e. when you need to use the funds. When discussing how to deal with risk, we emphasize that historic rates of return for different asset classes will not necessarily be repeated in the future, either for expected returns or the risk associated with seeking those returns.”

Risk is discussed in greater detail in two later paragraphs (bottom of pg. 4 and top of pg. 5):
“All investments involve risk. Cash investments, for example, generally do not run the risk of price declines, but are subject to delivering returns that trail inflation (inflation refers to the rate at which the purchasing power of your money declines over time). Fixed income securities/bonds have risk related to changing prices of the underlying securities, based primarily on changing market interest rates and the length of time until the bonds mature (although this risk of price fluctuation is typically significantly less than that of equity securities). Bonds are also subject to risk that the issuer of the bonds defaults (known as “credit” risk). Equity/stock investments involve the risk of significant price fluctuations, based on factors too numerous to discuss here. Historically, equities have delivered higher long-term average returns than either bonds or cash, but have done so with significantly more price variation (also referred to as volatility). Since historical returns are in no way assured for the future, the volatility associated with stock prices must be considered carefully in developing an appropriate asset allocation for you.”

“Similarly, all investment programs have risk. The most basic risk is that the anticipated investment returns do not occur. Historical rates of return may not be repeated in a time frame relevant to you and your objectives. Investments that provide the opportunity for long term capital growth in excess of the returns from fixed income may experience a high degree of price volatility, both up and down, over substantial periods of time. While diversification among and within asset classes can help moderate risk, risk cannot be eliminated. We use indexed investments in all categories, where available, in order to provide such diversification. And while indexed investments typically provide a low cost, tax efficient methodology for implementing client allocations, they also do not, and cannot, eliminate risk. Finally, long term “average” investment results are likely to have little or no connection to actual results in “extreme” economic environments, such as double digit inflation and interest rates, severe recession/deflation/depression, or some other set of conditions not yet experienced (see Nick Taleb’s discussion, in “The Black Swan,” of the impact of previously unseen, or even unimagined events).”

Returning to the starting point of this discussion -- that some investment advisors were departing from their basic disciplines in the context of the major declines of 2008 and early 2009 -- we have repeated our basic principles, set out in writing in the much better times of July 2007, to reaffirm the fact that we continue to adhere to these principles. Further, we think that advisors who are changing their methodologies as a result of the declines are basically engaged in market timing, and are very likely to be making the changes based on yesterday’s bad news, with the result that their clients are likely to lose out on the potentially favorable outcomes that accompany retaining certain time-tested methodologies.



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