Park Piedmont Advisors LLC

Registered Investment Advisor

Helping to Achieve Clients' Goals with Indexed Investments

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JULY 2009 COMMENTS

JULY 2009 MARKET ACTIVITY (ending Friday, July 31st)

During the month of July, US and INTERNATIONAL STOCK prices soared, with broad-based US indexes up between 8% and 9%, and international indexes up even more. YTD results showed a wide range, with all indexes showing gains (except REIT). All stock categories have made huge percentage gains of over 40% since their March 9th lows. International and Emerging Markets continued to outperform most US indexes, exactly the reverse of 2008 results. (For month and YTD figures, see page 2). Even with all their recent gains, stock prices remain far below the highs reached in October 2007 and the levels of May 2008. (For figures tracking the volatility in stock prices since the end of 2006, see page 5.) It is also worth remembering that after a decline of 50%, it takes a recovery of 100% to get back to the price starting point.

BOND prices of high credit quality bonds were also higher. US Treasury prices continued steady, as interest rates on the benchmark 10-year bond closed at 3.50%, down a slight 4 bps from June's close, but far higher than December's historically low close of 2.25%. These rates were lower than the recent high of 3.94%, which occurred in May, 2008. The key point on these continuing moderate interest rates is that inflation expectations remain low, even with all the recent government borrowing and deficits. (Typically, bond prices decline as interest rates rise, and prices rise as rates decline, absent credit concerns). The high credit quality corporate bond market, as well as the low credit quality "junk bond" market, continued to post substantial gains, far outperforming a mix of safer, lower yielding, government-corporate bonds, which is also a complete reversal of 2008 results. (Month and YTD results are on page 2).

COMMENTS: INDEX RESULTS for period ending JULY 2009

	YEAR 1999	YEAR 2000-2	YEAR 2003-5	YEAR 2006	YEAR 2007	YEAR 2008	YTD 2009	JULY 2009
STOCKS								
Vanguard Total Stock Market Index Fund	23.8%	-37.2%	53.1%	15.5%	5.5%	-37.1%	12.6%	8.2%
Standard & Poor's (S&P) 500 Index	19.6%	-40.1%	41.9%	13.6%	3.5%	-38.5%	11.0%	9.2%
Vanguard S&P 500 Growth Index Fund	28.8%	-48.4%	41.8%	9.0%	12.6%	-38.4%	18.5%	7.8%
Vanguard S&P 500 Value Index Fund	12.6%	-26.2%	63.2%	22.1%	0.1%	-36.1%	5.4%	7.8%
Dow Jones Industrial Average Index	25.2%	-27.5%	28.5%	16.3%	6.4%	-33.8%	4.5%	8.3%
NASDAQ Composite Index	85,6%	-67.2%	65.2%	9.5%	9.8%	-40.5%	25.5%	9.1%
Vanguard Midcap US Index Fund	25.0%	-18.3%	83.9%	13.6%	6.0%	-41.8%	18.0%	9.7%
Vanguard Smallcap US Index Fund	19.6%	-24.2%	87.5%	15.6%	1.2%	-36.1%	17.8%	10.5%
Vanguard International Index Fund (EAFE)	25.3%	-45.9%	95.9%	26.6%	15.5%	-44.1%	21.8%	11.0%
Vanguard Emerging Markets Index Fund	61.6%	-29.5%	162.7%	29.4%	39.0%	-52.9%	49.7%	15.5%
Vanguard Real Estate Investment Trust Fund	-0.4%	47.5%	98.6%	35.1%	-16.5%	-37.2%	-2.3%	9.4%
BONDS								
Vanguard Short-term Bond Index Fund	2.1%	25.8%	6.5%	4.1%	7.2%	5.4%	2.7%	0.8%
Vanguard Short-term Tax-Ex. Bond Fund	2.6%	13.8%	4.5%	3.2%	4.2%	3.7%	2.2%	0.5%
Vanguard Total Bond Market Index Fund	-0.8%	30.4%	11.1%	4.2%	6.9%	5.1%	3.6%	1.5%
Vanguard Interm-term Tax- Ex. Bond Fund	-2.9%	23.7%	10.3%	4.4%	3.4%	-0.1%	6.7%	1.9%
Vanguard High-Yield Bond Fund	NA	1.7%	30.7%	8.2%	2.0%	-21.3%	26.7%	6.9%
Vanguard High-Yield Tax-exempt Bond Fund	-3.4%	25.2%	16.5%	5.5%	1.6%	-10.5%	12.6%	1.8%
Vanguard Inflation-Protected Bond Fund	NA	25.5%	20.0%	0.4%	11.6%	-2.9%	5.6%	0.1%

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. After each year's % change, the result for that year creates a new base. So if at the end of year one 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.

NOTE 3: Results for Vanguard funds include dividends and fund expenses but not PPA's advisory fee.

NOTE 4: Results for the S&P 500, Dow Jones, and NASDAQ indexes do not include dividends or PPA's advisory fee.

%	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
		1999				**2000**				**2001**		
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
		2002				**2003**				**2004**		
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
		2005				**2006**				**2007**		
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
		2008				**2009**				**2010**		
S&P 500	(9.9)	(2.9)	(7.9)	(17.7)	(11.7)	13.5%						
NASDAQ	(14.1)	0.6	(8.0)	(19.0)	(3.1)	19.5%						
BONDS	2.2	(1.1)	(0.5)	4.5	0.3	1.8%						

STOCK index prices for US and International indexes posted major gains during July, as follows: S&P500, +9.2%; Dow Industrials, + 8.3%; NASDAQ Composite, +9.1%; Total US Stock Market (Largecap, Midcap and Smallcap), +8.2%; Developed International, +11.0%, and Emerging Markets +15.5%. YTD results had a wide range of +11.0%, +4.5%, +25.5%, +12.6%, +21.8% and +49.7%, respectively. Growth continued to outperform Value, and the REIT sector continued to lag.

BOND returns (price change plus interest) for high credit quality corporate bonds and low credit quality high yield (or “junk”) bonds continued their gains in July, and YTD. The major gains in government bonds that dominated last year’s results, when credit risk was the main focus, have not continued during 2009. Instead, bond investors have been willing to take on additional risk to obtain much higher yields in both high and low credit quality bond markets, as compared to continuing low US government interest rates. Short-term US Treasury yields remain at almost zero, as the Federal Reserve has kept its short-term rates at that level.

ECONOMIC NEWS for July reflected the theme that while the economy is still not good, it is at least improving. Some examples: (1) Gross domestic product (GDP) for Q2 declined 1.0%, not good, but far better than the Q1 decline of 6.4% (WSJ, 8/1-2, front page. The same article stated that “new data on US growth showed that the current recession is the worst since World War II”; (2) July employment figures showed a drop of 247,000, “far fewer than the June decline,…and the labor market’s best performance in a year (WSJ, 8/8-9, front page); (3) Retail spending was higher, but excluding gas and autos, was down 0.2% (WSJ, 7/15, A2); and (4), lower priced home sales increased, with lower prices stimulated sales (WSJ, 7/28, C12). All in all, the economy is showing signs of improvement, but only from the very low levels reached earlier this year.

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-July 2009 rally has been significant, and has reduced those declines to approximately 40% (see chart on page 5). From 2000 through June 2009, the Dow Industrials are now 22% lower, the S&P 500 35% lower, and the NASDAQ a stunning 61% lower, even as NASDAQ is the outperformer in the current 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 5.4% to 6.8%. 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.

	S&P 500 (1)		DOW (1)		NASDAQ (1)	
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)%
July 31, 2009	987	(35)%	9,172	(22)%	1,978	(61)%

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

	S&P 500 (1)	DOW (1)	NASDAQ (1)
End 1994	459	3,834	752
End 1999	1,470	11,500	4,070
Gain	1,011	7,666	3,318
Avg. Ann. % Gain:'95-'99; 5 years	26.2%	24.6%	40.2%
June 2009	987	9,172	1,978
Gain	528	5,338	1,226
Avg. Ann. % Gain:'95-7/09; 14.6 yrs.	5.4%	6.2%	6.8%

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

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, turned out to be a mild prelude to the declines of Sep.-Nov. 2008, and Jan.-Mar. 9, 2009.

	S&P 500	Change from YE06	Dow Jones Industrials	Change from YE06	NASDAQ	Change from YE06
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%
7/31/09	987	-30.4%	9,172	-26.4%	1,978	-18.1%

* 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%. The March-July 2009 recovery from the March 9th lows has been by far the best, with gains now ranging from 40% (Dow) to 45% (S&P 500) to 56% (NASDAQ). (But remember, after a decline of 50%, it takes a gain of 100% to get back to even). These recoveries illustrate the dangers of exiting the stock market after periods of substantial declines on the assumption they will continue, and also about using periods of gain as entry points.

3) Even knowing what we do 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.

Before addressing this month's main topic, we would like to repeat the following paragraph from the first page of our May and June Comments, as it is still highly pertinent:

The rapid, significant increase in stock prices since the March 9th lows (S&P500 up 45%) presents the question of whether investors should: (1) sell some stock positions to take some of the recent gains; (2) buy more stock positions, since prices have been rising; or (3) retain their stock positions, based on previously established allocations (and the fact that the S&P 500 is still down approximately 37% from the highs of October 2007). The answer to this question is likely to depend on: (A) your view of the likelihood of an economic recovery in a reasonable time frame, without harmful inflation (discussed at length in this month's Comments, immediately below); and (B) whether you want to act as a short-term investor, focusing on short-term price swings, or as a long-term investor, with established goals for your money and the need for some growth potential to meet those goals. 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, well-diversified investment portfolio is the best approach, rather than trying to outguess the market's moves.

INVESTMENT CONCEPTS: RISK, CURRENT ISSUES

Last month's Comments discussed Risk in general, conceptual terms, by drawing extensively on the writings of Peter Bernstein, from his book "Against the Gods, the Remarkable Story of Risk." This month's Comments will continue the discussion of Risk, by focusing on what we see as a number of key issues impacting the financial markets currently, and which will likely impact those markets for years to come.

Issue 1: Is there likely to be a reasonable economic recovery, without the need for significant additional government assistance? This issue raises related questions:

a) Is there likely to be a recovery in employment levels, with a broad mix of jobs, at least some of which relate to potential growth areas of the future? These areas might include alternative energy, health care, environmental improvements, and education, as well as yet unknown technological advances. (Think the development of computers and the internet over the past fifty years). These growth areas would not seem to include a return to the older manufacturing industries, which are afflicted by worldwide overcapacity, as technology has made many of these industries highly efficient, needing less labor.

b) Is there likely to be a recovery that does not generate harmful levels of inflation, the potential for which is already present based on the large amounts of government spending and financial support that have been recently introduced into the economic system? These government programs create the need for large amounts of borrowing, which in turn carries the risk of higher interest rates, higher inflation, and a weaker US dollar.

c) Is there likely to be a recovery that produces sustainable corporate profitability, as this profitability is what supports stock prices and the ability to pay off corporate debt.

Issue 2: Can the financial system be returned to providing essential financial services, while reducing the likelihood of the kind of excessive risk taking that has been identified as responsible for many of today's problems? This issue also raises related questions:

a) Can providers of credit (banks, credit card companies) do so in a responsible manner, stimulating economic activity while at the same time maintaining appropriate credit standards so that the loans are repaid? This applies to home mortgages, car loans, general credit card debt, and any type of financial activity that involves the extension of credit with repayments to be made in the future.

b) Can Wall Street and other investment firms provide their services while earning reasonable profits which are not perceived as unfairly earned? The idea that certain firms are "too big to fail," and will be bailed out if they encounter financial difficulties, has the potential of encouraging an excessive level of risk taking. The attitude becomes… if the risk proves profitable, the firm gets the profit, and if the risk proves unprofitable enough, the firm will be supplemented with public money. This has already occurred, and the question is whether it can be prevented from recurring.

Issue 3: Can government strike a reasonable balance between the activities it wants to be involved in, and the financial obligations it incurs with its involvement? High budget deficits, based on programs established during the recent financial crisis, and other costly programs such as healthcare reform, lead to the following related issues:

a) Can the government raise all the money it needs, whether from borrowing or taxation?

b) Can the money borrowed be raised at reasonable interest rates? High interest rates can adversely affect economic growth, and add to inflationary pressures.

c) If tax increases are needed, will they negatively impact economic activity?

d) Paying off debt with increasing supplies of government-created money can lead to harmful levels of inflation.

Each of these issues remains open at this time, and the uncertainty provides a sound basis as to why stock prices are still well below their recent October 2007 highs (37% below for the S&P 500), even with the recent substantial stock market rally. This uncertainty also provides a rationale for why interest rates on all manner of questionable credit-quality debt securities remains quite high relative to the almost zero interest rates paid on high credit-quality (US Government), very short-term debt. Investors facing all of these issues are faced with a key conceptual question: Should they rely on the history of market price movements, which indicates positive returns, and recoveries that eventually overtake the declines? Or do they need to have a reasonable belief that the specific problems of this current time can be favorably resolved, and that only with such favorable resolution can market prices show meaningful, long term improvement?

To quote Bernstein: "There is a tension between those who assert that the best decisions are based on numbers and quantification, determined by patterns of the past, and those who base their decisions on more subjective degrees of belief about the uncertain future….To what degree should we rely on the patterns of the past to tell us what the future will be like?" (page 6)…. The past seldom obliges by revealing to us when the wildness will break out in the future…. After the fact, when we study the history of what happened, the source of the wildness appears so obvious that we have a hard time understanding how people on the scene missed them…. We cannot enter data about the future into the computer because such data are inaccessible to us. So we pour in data from the past… but past data constitute a sequence of events rather than a set of independent observations…. History provides us with only one sample of the economy and the capital markets, not with thousands of separate and randomly distributed numbers…. It is in the outliers that the wildness lurks" (pages 334-337).

In our view, the history we know can only serve as a guide to what may happen in the future. No one can know with certainty what the future holds, regardless of what has happened in the past. Therefore, some risk needs to be taken, unless the investor has already accumulated sufficient capital to cover all present and future needs of family and other people or entities that the investor has an interest in benefiting financially. The question then turns to how much risk the investor needs to take in order to accomplish his or her financial/investment goals. In this way, an investment portfolio can be structured to at least minimize the risk taken in the effort to meet the goals. Returning to Bernstein, "the real risk in holding a portfolio is that it might not provide its owner, either during the interim or at some terminal date or both, with the cash required to make essential outlays' (pages 260-261).

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