



Park Piedmont Advisors LLC

Registered Investment Advisor

Helping to Achieve Clients' Goals with Indexed Investments

VICTOR LEVINSON

NICK LEVINSON, CFP®

NOVEMBER 2008 COMMENTS

NOVEMBER 2008 MARKET ACTIVITY (ending Friday, November 28th)

During the month of November, STOCK prices, both U.S. and international/emerging markets, continued their extensive declines, but a late rally substantially reduced the month's declines. YTD declines ranged from -33.4% for the Dow Jones Industrials to -56.4% for Emerging Markets. (Month and YTD Stock and Bond results are on pg. 2; see also pg. 6).

BOND prices of high credit quality bonds showed signs of stability, including corporates and municipals, and US Treasury Inflation protected bonds. However, the lower credit quality income oriented/alternative investments, along with Commodities, continued their declines.

This month's discussion focuses on our advice in these severe current market conditions.

IMPORTANT NOTICES:

Park Piedmont ADV and Privacy Statement: You can request the most current version of our ADV by contacting Lynette. Our Privacy Statement is enclosed.

NEW ADMINISTRATIVE OFFICES: After a number of years happily sharing space with Richard Backer, CPA, at 110 West 40th Street, in New York City, we are moving to 1034 River Road, Suite # 4, Edgewater, New Jersey, 07020. We will advise you of our phone and fax numbers at the new location as soon as possible. The move is scheduled to take place during December. Victor and Nick will continue to work from our respective home offices.

Required Minimum Distributions from Retirement Accounts (RMDs): All clients who reach 70 1/2 years of age during 2008 must take an RMD. You should receive a letter from either Schwab or National Financial Services (NFS), depending on the firm that serves as custodian for your retirement account, regarding the amount. We will be in touch with you as to how you want to receive your RMD.

Annual Fee for Retirement Accounts: For retirement accounts still at NFS, there is a \$35 annual charge. You will receive a letter on this, and we suggest letting NFS debit your account rather than bothering to send a separate check.

CONTENTS

Page 1: Important Notices: What's in This Edition?

Pages 2-4: Index Results for NOVEMBER 2008, and Year-to-Date 2008;
Also Years 1999 – 2007, and Various Other Longer Time Periods

Pages 5-8: Investment Concepts: Current Markets, and Our Advice

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 NOVEMBER 2008

	<u>YEAR</u>	<u>YEARS</u>	<u>YEARS</u>	<u>YEAR</u>	<u>YEAR</u>	<u>YTD</u>	<u>NOV</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>2008</u>
Vanguard Total Stock Market Index Fund (1)	23.8%	(37.2%)	53.1%	15.5%	5.5%	(38.2)%	(5.3)%
Standard & Poor's (S&P) 500 Index (2)	19.6%	(40.1%)	41.9%	13.6%	3.5%	(39.0)%	(5.0)%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(48.4%)	41.8%	9.0%	12.6%	(39.0)%	(5.7)%
Vanguard S&P 500 Value Index Fund (1)	12.6%	(26.2)%	63.2%	22.1%	0.1%	(37.0)%	(4.2)%
Dow Jones Industrial Average Index (2)	25.2%	(27.5%)	28.5%	16.3%	6.4%	(33.4)%	(3.7)%
NASDAQ Composite Index (2)	85.6%	(67.2%)	65.2%	9.5%	9.8%	(42.1)%	(7.0)%
Vanguard Midcap US Index Fund (1)	25.0%	(18.3%)	83.9%	13.6%	6.0%	(44.5)%	(5.6)%
Vanguard Smallcap US Index Fund (1)	19.6%	(24.2%)	87.5%	15.6%	1.2%	(39.4)%	(7.8)%
Vanguard International Index Fund (EAFE) (1)	25.3%	(45.9%)	95.9%	26.6%	15.5%	(48.3)%	(3.5)%
Vanguard Emerging Markets Index Fund (1)	61.6%	(29.5%)	162.7%	29.4%	39.0%	(56.4)%	(3.7)%
Vanguard Real Estate Investment Trust Fund (1)	(0.4%)	47.5%	98.6%	35.1%	(16.5)%	(46.4)%	(16.4)%
<u>BONDS</u>							
Vanguard Total Bond Market Index (1)	(0.8%)	30.4%	11.1%	4.2%	6.9%	1.6%	3.5%
Vanguard Intermediate Tax- Exempt Index Fund (1)	(2.9%)	23.7%	10.3%	4.4%	3.4%	(1.5)%	0.2%
Vanguard Short-term Bond Index (1)	2.1%	25.8%	6.5%	4.1%	7.2%	3.6%	2.1%
Vanguard Short Tax- Exempt Index Fund (1)	2.6%	13.8%	4.5%	3.2%	4.2%	3.3%	0.6%
Vanguard High-Yield Bond Fund (1); starting 2002	NA	1.7%	30.7%	8.2%	2.0%	(27.5)%	(4.9)%
Vanguard Inflation-Protected Bond Fund (1); starting 2001	NA	25.5%	20.0%	0.4%	11.6%	(7.7)%	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, 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)												
NASDAQ	(14.1)	0.6	(8.0)												
BONDS	2.2	(1.1)	(0.5)												

NOVEMBER 2008 COMMENTS

STOCK index prices continued to decline in November for both U.S. and international markets. After recording extreme declines early in the month, prices staged a month-end recovery that diminished the extent of the declines (see page 5 chart for additional details).

BOND returns (price change plus interest) showed stability in November for the high credit quality portion of the markets, including corporates, municipals and U.S. Treasury Inflation Protected bonds. However, lower-credit quality income-oriented securities declined even further, in some cases in amounts approaching the declines of stock prices. The benchmark 10-year US Treasury yield closed at 2.96%, an astonishing 103 bps below last month's close, and 47 bps below the prior low in March. In general, as interest rates move lower, prices for existing bonds rise. In this environment, however, the credit quality issues impacting various parts of the credit markets have altered this normal relationship of interest rates and prices.

ECONOMIC NEWS continued mostly negative, with ongoing, and in some cases worsening, declines in employment, housing prices, retail sales, consumer spending, and durable goods orders. The updated GDP for Q3 was negative at -0.5% (WSJ, 11/26/08, A2), a clear sign that a recession is at hand. The key question now is its duration and severity, since recession has spread internationally as well. Positive news included continuing declines in oil prices and lower inflation figures (indeed, some economists now fear the onset of deflation, or lower prices). But 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 housing and now much more widespread credit problems have triggered an economic slowdown that in turn has produced a significant bear market for stocks. The 2003-07 recovery from the severe bear market of 2000-02 has ended, and the 2008 price declines have now eliminated all the stock price gains from the past five years. From the 2000 highs to November 2008, the Dow Industrials are now 25% lower, the S&P 500 41% lower, and the NASDAQ a stunning 70% lower. This is likely to be the first decade since the 1930s with cumulative annualized negative stock returns, making these returns obviously far lower than their positive long-term average annualized returns. The mutual fund company Vanguard notes that from 1926 through 2005, in only six of 80 years did stock prices fall within 2%, up or down, of the long-term annual average return of plus 10.4%.

Going back to the bull market that began in 1995, all three major indexes have similar (and after the past three months, much lower) average annual returns, ranging from 4.9% to 6.2%. (These returns are obviously far below the 10.4% annual average dating back to 1926.)

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>	
Ist 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 New Low	752	(51)%	7,552	(36)%	1,316	(74)%
November 30, 2008	896	(41)%	8,829	(25)%	1,535	(70)%

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%
NOVEMBER 2008	896	8,829	1,535
Gain	437	4,995	783
Avg. Ann. % Gain: '95-11/08; 13.92 yrs	4.9%	6.2%	5.2 %

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

INVESTMENT CONCEPTS

The chart below, introduced with our November 2007 Comments, has been updated monthly to reflect the extreme stock market volatility since the summer of 2007. However, what appeared to be extreme volatility prior to September 2008 has turned out to be a mild prelude to the declines of the last three months. The chart reflects this fact well.

	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, 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%
11/30/08	896	-36.8%	8,829	-29.2%	1,535	-36.4%

* Note – these Lows are not closing prices, but ("intra-day") lows

Some key observations from the chart:

- 1) From the 10/9/07 highs to the most recent November lows, all three major U.S. indexes are down a huge 54% to 65%, 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 November 2008 price recovery, measured from the November lows, ranged from 18% to 21%. These recoveries illustrate the dangers of exiting the stock market after periods of substantial declines, on the assumption the declines will continue. However, we do know now, with the benefit of hindsight, that each of these rallies prior to November 2008 was modest, given the extent of the declines that followed.
- 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.

Current Markets, and Our Advice

First, we would like to review November's results. As the chart on page 5 indicates, November's stock prices at their lows fell well below October's lows, and November's closing prices were lower than October's closing prices. Both months experienced substantial month-end rallies, but the price declines preceding these rallies were so large that even these late rallies could not turn either month into anything approaching a gain.

November's price declines measured from the start of year prices are set out in the chart on page 2, and the start of year prices are the basis of YTD figures. However, and this can be confusing, the month to month percentage declines are considerably larger than the monthly figures using the start of year values, because the month's starting figure is so much lower than the start of year figure. Similarly, the percentage gains in the late November rally were far higher when measured against the low prices reached during the month, as compared to the percentage changes when measured against higher base figures.

The significance of these observations is that the percentage declines for stocks from October to November range from 5% for the Dow Industrials, to 8% for the S%P 500, to 10% for the NASDAQ Composite, even though the percentage declines measured by YTD figures are 4%, 5% and 7% respectively. International and Emerging Market price results showed similar patterns for the month. The YTD declines for these international categories are significantly higher than for U.S. stocks, after years of outperformance by internationals.

As for bonds and other income-oriented investments, the prices for high quality bonds, including governments, corporates, municipals, and U.S. Treasury inflation protected, stabilized during November, after many of these categories experienced serious declines in October. Some high quality categories now have positive returns for the year, after taking the interest paid into account. Government bond prices increased the most, driven by a flight to safety and sharply declining yields for government bonds. (The exception was US Treasury Inflation Protected bonds, whose price was flat, presumably because of the short-term outlook for low or even negative inflation).

However, prices in the low credit quality, income-oriented market continued to decline, raising yields on some of these investments to levels exceeding 20% (WSJ, 11/29-30/08, B3). Prices for preferred stocks (mostly banks), commercial mortgages, and commodities continued their declines as well.

Next we would like to review again how we advise clients during these periods of dramatic, severe price declines.

Our advice reflects that of certain influential figures in the investment community. Most recently, David Swensen, who is the Manager of Yale's endowment fund, was interviewed by Worth Magazine (December/January 2009, pg. 49). (Swenson's book, "Unconventional Success," cited frequently in these Comments, discusses how individual investors should invest.) Here are some of his comments from the Worth interview (pp. 51-2):

"The only way to sensibly deal with markets is to have a thoughtful long-term plan, and thoughtful long-term plans do not involve radical moves, and certainly not selling things that have gone down.... People tend to look at whatever is the highest number that they ever got on their brokerage statement and believe that it is theirs. Then, when it goes down, they feel like they lost something. In one sense it wasn't really theirs.... (interviewer: "Unless they cashed out.") "Yes, but that is not what you do, because even if you are 60 or 65 or even 70, you've got a pretty substantial life expectancy. Markets fluctuate. But over longer periods of time, they realize the overwhelmingly likely expectation that equities will outperform.

(Our note: Swensen's model portfolio, which he mentions in the interview, and before taking into account individual circumstances, is 70% equities, made up of U.S. Total Stock Market, Developed International and Emerging Market indexes, and an REIT index; and 30% bonds, using only U.S. Treasuries and U.S Inflation Protected. Our portfolios, each based on individual circumstances, typically have much lower allocations to stocks, particularly for clients in the 60-70 and older age range. See page 8 discussion which follows).

The second source of advice is a shorter version of the quoted section of Professor Burton Malkiel's article that appeared on page 13 of last month's Comments. (Malkiel is the author of "A Random Walk Down Wall Street," first published in the 1970s, and a major advocate of long-term buy and hold investing using indexed investments). The key section (from WSJ, 10/13/08, A19): "Just because stock markets have panicked, investors should not. The best position is not fetal and 100% in cash.... A century of investing experience... suggests that investors who bail out of equities during times like these are almost always making the wrong decision.... It is clear that selling stocks a year ago would have been an excellent strategy. But neither investors nor investment professionals can consistently time the market.... Look at history: the market eventually bounded back from the damaging stagflation of the 1970s and the savings and loan crisis of the early 1990s.... Stocks also recovered from the Asian crisis of the late 1990s. Similarly, investors who held on after the more than 20% one day stock market decline in 1987 were eventually rewarded."

With these authorities as context, here are the key points underlying our advice:

- 1) The basic premise is that there are solutions to the current problems; in this case, government actions to provide liquidity, support financial institutions to resume normal levels of lending, offer mortgage relief, and inject major economic stimulus to re-start economic activity and employment.
- 2) If there are solutions, price recoveries in the markets are a reasonable expectation.
- 3) Given the extent of the declines, price recoveries, if they do occur, have a reasonable chance of being substantial.
- 4) Therefore, if you do not need to sell the positions with the most severe price declines in order to provide funds for current needs, then we advise not selling the positions due to their price declines. (This point does not address tax loss selling, where we suggest replacing what is sold with similar investments). One fundamental rationale for the asset allocations we establish for our clients is that they have sufficient high quality bond investments to cover a number of years of their spending needs. In doing so, the income generated from those investments, and the value of the bonds themselves, provide those clients who need to use these assets in the short-term with the sources of their spending needs. (For younger clients, with no foreseeable need to use their invested assets, the allocation to bonds is more for diversification purposes.) This in turn provides substantial time to withstand even severe price declines, and allows our clients to hold their positions in anticipation of the hoped-for recovery. Of course, the number of years of spending covered by these bond investments in each portfolio is a function of the amounts of the total portfolio and the spending need, but the principle underlying the allocations is applicable in most circumstances.



Victor Levinson



Nicholas Levinson