Park Piedmont Advisors LLC

Registered Investment Advisor

Helping to Achieve Clients' Goals with Indexed Investments

VICTOR LEVINSON **NICK LEVINSON, CFP®**

DECEMBER 2008 COMMENTS

Happy New Year and Best Wishes for a Much Better 2009

DECEMBER 2008 MARKET ACTIVITY (ending Wednesday, December 31st)
During the month of December, US stock prices managed slight gains, in contrast to the huge declines of the prior three months. International/Emerging stock markets had more substantial gains, after registering even larger declines than US stocks over the previous eleven months. YTD declines ranged from -33.8% for the Dow Jones Industrials to -52.9% for Emerging Markets. (Month and YTD Stock and Bond results are on pg. 2.)

BOND prices of high credit quality, and even lower credit quality corporate bonds, had substantial gains. This also reversed months of significant price declines for all bond categories other than US Treasuries and other government-guaranteed investments (the yields on these super safe investments have declined to a range of zero to 2%).

IMPORTANT NOTICES:
NEW ADMINISTRATIVE OFFICES:
Our administrative offices have moved to 1034 River Road, Suite # 4, Edgewater, New Jersey, 07020. Lynette and Archana have sent notices regarding our new phone and fax numbers. Victor and Nick continue to work from their respective home offices, and our accountant Investment Advisor Reps continue to work from their offices.

Required Minimum Distributions (RMDs) from Retirement Accounts:
New legislation ELIMINATES RMDs for 2009. This provides major income tax savings for anyone who either: (1) has no need for the money that would otherwise have been distributed, or (2) has alternative sources of money to use instead of distributions from a retirement account. We will be speaking to all affected clients to develop an appropriate approach for each individual situation.

CONTENTS

COMMENTS: INDEX RESULTS for period ending DECEMBER 2008

	YEAR	YEARS	YEARS	YEAR	YEAR	YTD	DEC
STOCKS	**1999**	**2000-02**	**2003-05**	**2006**	**2007**	**2008**	**2008**
Vanguard Total Stock Market Index Fund (1)	23.8%	(37.2%)	53.1%	15.5%	5.5%	(37.1)%	1.1%
Standard & Poor's (S&P) 500 Index (2)	19.6%	(40.1%)	41.9%	13.6%	3.5%	(38.5)%	0.5%
Vanguard S&P 500 Growth Index Fund (1)	28.8%	(48.4%)	41.8%	9.0%	12.6%	(38.4)%	0.6%
Vanguard S&P 500 Value Index Fund (1)	12.6%	(26.2)%	63.2%	22.1%	0.1%	(36.1)%	0.9%
Dow Jones Industrial Average Index (2)	25.2%	(27.5%)	28.5%	16.3%	6.4%	(33.8)%	(0.4)%
NASDAQ Composite Index (2)	85.6%	(67.2%)	65.2%	9.5%	9.8%	(40.5)%	1.6%
Vanguard Midcap US Index Fund (1)	25.0%	(18.3%)	83.9%	13.6%	6.0%	(41.8)%	2.7%
Vanguard Smallcap US Index Fund (1)	19.6%	(24.2%)	87.5%	15.6%	1.2%	(36.1)%	3.3%
Vanguard International Index Fund (EAFE) (1)	25.3%	(45.9%)	95.9%	26.6%	15.5%	(44.1)%	4.2%
Vanguard Emerging Markets Index Fund (1)	61.6%	(29.5%)	162.7%	29.4%	39.0%	(52.9)%	3.5%
Vanguard Real Estate Investment Trust Fund (1)	(0.4%)	47.5%	98.6%	35.1%	(16.5)%	(37.2)%	9.2%
BONDS							
Vanguard Total Bond Market Index (1)	(0.8%)	30.4%	11.1%	4.2%	6.9%	5.1%	3.5%
Vanguard Intermediate Tax- Exempt Index Fund (1)	(2.9%)	23.7%	10.3%	4.4%	3.4%	(0.1)%	1.4%
Vanguard Short-term Bond Index (1)	2.1%	25.8%	6.5%	4.1%	7.2%	5.4%	1.8%
Vanguard Short Tax- Exempt Index Fund (1)	2.6%	13.8%	4.5%	3.2%	4.2%	3.7%	0.4%
Vanguard High-Yield Bond Fund (1); starting 2002	NA	1.7%	30.7%	8.2%	2.0%	(21.3)%	6.2%
Vanguard Inflation-Protected Bond Fund (1); starting 2001	NA	25.5%	20.0%	0.4%	11.6%	(2.9)%	4.8%

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

DECEMBER 2008 COMMENTS

STOCK index prices in the US had slight gains in December, and international markets posted larger gains. (These international markets had larger declines than US stocks for the rest of 2008). See the chart on page 5 for additional details on US stock prices.

BOND returns (price change plus interest) were substantially higher in December for the high credit quality portion of the markets, including corporates, municipals and US Treasury Inflation Protected bonds. In a major reversal from recent months, returns also improved substantially in the lower-credit quality income-oriented markets. The benchmark 10-year US Treasury yield closed at 2.25%, which was 70 bps below last month's close and 125 bps below the prior low in March. Short-term Treasury yields went to almost zero, as the Federal Reserve lowered short-term rates to almost zero. In general, as interest rates move lower, prices for existing bonds rise. In the current environment, however, the credit quality issues impacting various parts of the credit markets have altered this normal relationship of interest rates and prices. In December, there was some movement back to more normal pricing.

ECONOMIC NEWS continued mostly negative, with worsening declines in employment, housing prices, retail sales, consumer spending, and durable goods orders. The final GDP for Q3 was negative at -0.5%, and the official start of this recession was dated back to December 2007. The key question now is the recession's duration and severity, since it has spread internationally as well. Positive news included continuing declines in oil prices and lower inflation figures. (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 a serious world-wide recession, which in turn has produced a significant bear market for stocks. The 2003-07 recovery from the bear market of 2000-02 has ended, and the 2008 price declines have now eliminated all the stock price gains of the past five years. From the 2000 highs to year-end 2008, the Dow Industrials are now 25% lower, the S&P 500 41% lower, and the NASDAQ a stunning 69% 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, since September 2008, much lower) average annual returns, ranging from 5.0% to 6.1%. (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.

	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 New Low	752	(51)%	7,552	(36)%	1,316	(74)%
December 31, 2008	903	(41)%	8,776	(25)%	1,577	(69)%

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%
DECEMBER 2008	903	8,776	1,577
Gain	444	4,942	825
Avg.Ann.%Gain:'95-12/08; 14 yrs	5.0%	6.1%	5.4 %

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

INVESTMENT CONCEPTS

The chart below, 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 September through November, 2008. 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%
12/31/08	903	-36.3%	8,776	-29.6%	1,577	-34.7%

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

Some key observations from the chart:

1) From the October 2007 highs to the most recent November 2008 lows, all three major US 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 December 2008 price recovery, measured from the November lows, ranged from 18% to 22%. 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 rally 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.

I. Madoff, and the Legitimate Investment Advisor Community

As a result of the tremendous publicity surrounding Bernard Madoff's huge "Ponzi scheme," we think it appropriate to advise you of how the legitimate investment advisor community functions, as compared to Madoff. (Note, we are not suggesting that an advisor who does not function as outlined below is necessarily illegitimate, but rather that advisors who do function as outlined below are legitimate). .

1) The legitimate investment advisor uses an outside custodian firm to hold all client money and securities. The advisor does not put client money or securities in the name of the advisory firm, as Madoff did. Park Piedmont Advisors (PPA) uses Charles Schwab and National Financial Services (NFS, wholly owned by Fidelity), the two largest custodian firms in the business with over $1 trillion of client assets each, as its custodians. "Look out for an advisor who wants complete control of your money, and asks for checks to be made out to him or a company he controls. You are safest when the funds are held separately, in custody at a big broker dealer (e.g., Charles Schwab or Fidelity)….Get copies of your statements directly from the broker" (WSJ, 12/16/08, D6).

2) The legitimate investment advisor uses highly transparent, understandable investments that can be readily valued. The more obscure and complex the investments, the more "black box" and "proprietary" the systems providing the investment results, the less likely the client is to understand his/her portfolio. Madoff was notoriously unwilling to explain his methods to anyone. PPA uses broad-based Vanguard indexed mutual funds, other well known mutual funds in categories not covered by Vanguard, and Exchange Traded Funds (ETFs) tracking various segments of the stock and bond markets. These investment positions, and their values, are reported monthly on client statements maintained by the custodian, and mailed directly by the custodian to the client. PPA is always ready, willing and able to explain all its investment positions, and how they fit into the clients' asset allocation.

3) The legitimate investment advisor produces investment results in line with the markets in which they invest, as they implement the asset allocations developed for their clients. Madoff apparently reported the same 10-12% annual returns, even through the bear market of 2000-02 and the current declines. If advisors show results significantly better or worse than those of the stock and bond markets in which investments are being made, they must be able to explain why in a manner comprehensible to clients. Here again, PPA is always ready, willing and able to explain the results of our investments on your behalf.

Unfortunately, Madoff's activities cast doubt on all legitimate investment advisors, so we think it's important to present these differences for your consideration. The fact that the regulatory agencies were unable to uncover this fraud long ago remains a major mystery and source of concern, since the investing public relies on these agencies for protection. While most investment advisory firms are not happy about the costs to comply with the various rules and regulations that govern the industry, these firms do benefit when the public believes it is protected by these agencies. Repairing this regulatory breakdown, and restoring confidence in the investing public, presents a serious challenge to the authorities. We are strong advocates of effective regulation.

II. Taking the Long-term View of Investment Results

As the dismal investment year 2008 ends, rather than reviewing the grim details and/or attributing fault to the many who contributed to the current problems, we suggest focusing on a longer-term outlook that just might provide some relief from the daily gloom.

In presenting our advocacy of the long-term view, we are going to draw extensively from a year-end letter dated December 23, 2008, from Robert Turner, the Chairman and Chief Investment Officer of Turner Investment Partners, a firm managing $22 billion in stocks. (We acknowledge up front that he has his own agenda regarding the favorability of stock investing). Turner writes "This year has been so bad that it has wiped out the positive returns of the previous five years, when the S&P 500 index had risen an annualized 12.8%....And barring a big double digit return for stocks next year, this will be the worst decade ever for stocks, even worse than the Great Depression decade of the 1930s; with little more than one year to go, the stock market has declined 3.8% annualized this decade, compared to a negative 0.1% for the 1930s. Even taking into account all the enormous financial pain caused by the housing bubble, we think an objective analysis indicates that this pain has already been amply reflected in the stock market this year and this decade. Calendar year aside, from the intraday high of October 9, 2007, to the intraday low on November 21, 2008, the S&P 500 index fell 53.5%."

The letter continues with Turner's view that "investors have overreacted to the housing bubble and financial crisis; that forced liquidations by institutional investors, mutual funds, and hedge funds, amongst others, have been at least partly responsible for the market overshooting on the downside; and that…investors are underestimating the impact of the massive monetary and fiscal stimulus that the federal government has applied to the economy,…along with steps the rest of the world is taking to fortify the global financial system and economy."

Tuner writes that "if it's highly probable that the global financial system does right itself, then the only important question that remains is when does the stock market recover?... Normally, if investors were presented with a likely downside risk of 5-10% and an upside return potential of 30-50% (our note: this is the Turner firm's assessment of the market's risk reward profile currently), they would jump at the chance. However, because of the extreme risk aversion that has a stranglehold on them now, investors are extremely hesitant to buy because they think the market's future direction may continue to be down. Of course stocks are among the few things in the world that people are reluctant to buy when their price is cheaper; they tend to buy when they are thrilled that stock prices are rising, and tend not to buy when they are depressed that stock prices are falling."

At this point, Turner's discussion turns to the long-term record of stock investing, which provides support for the idea of buying when prices are down. He notes that "consistently declining share prices aren't the norm historically; rather the stock market has recorded positive total returns in 71% of the 83 years since 1926." (Our note: We would add that stocks have a positive long-term annualized return of approximately 10%, far outpacing the returns on bonds, cash equivalents, and inflation).

Turner goes on to say that "bear markets historically have been followed by bull markets, and that a decade of negative or lackluster stock returns has been followed by a decade of soundly positive returns. (His examples: Stocks had annualized returns of 9.2% in the 1940s and 19.4% in the 1950s after the negative decade of the 1930s, and returns of 17.5% in the 1980s and 18.2% in the 1990s following the below average 5.9% annualized return of the 1970s)." His final historical point is that "47% of the gains in a bull market are typically reaped in the first twelve months…long before most recessions are declared to be officially over and most investors feel comfortable putting money back into stocks."

We do not know whether Turner's assessment of the current stock market is correct, or whether his risk-reward analysis is sound, or whether any of his views on the future of stock price movements is likely to prove accurate. Nor are we in all cases major advocates of stock investing, preferring to use modest allocations to the stock market for many clients whose goals do not require them to have large exposure to stocks. Rather, we have presented his views as representative of a serious investment professional advocating that we take a longer term view of the markets. This provides a different perspective than the negative focus on day-to-day stock price changes during a period when stock prices are declining sharply.

The long-term view sharply distinguishes investing from the superficially similar activity of gambling. In our view, the main difference between these two activities is TIME. In the typical gamble, the outcome is known in a brief time period, the odds of the outcome should be close to even for the bet to be made (including any handicapping system to equalize the chances of an outcome), and there is typically no long-term history that would support one outcome over others. Short-term investing, hoping the markets go in one direction or the other, has many similarities to gambling. Once investing becomes a long-term process, the outcome depends more on the future economic growth of the world's economies, and there is an historical record that may be worth referencing.

Long-term investing has two basic principles: (1) the future is inherently unknowable. While analysts and pundits and gurus try to predict the future, it simply cannot be done; and (2) trying to time the direction of market prices is very difficult to do with any degree of consistency. Market timing is defined as the effort to be in the markets when prices are rising, and to be out of the markets in advance of serious declines. If the future is unknowable, and guessing at the market's price movements is unlikely to succeed, what is left for investors to do? The long-term approach involves establishing an asset allocation that provides sufficient financial wherewithal to live off the stable, income producing part of the portfolio (or living on other sources of income), allowing you to live through the possibility of years of negative results affecting the volatile part of the portfolio.

Interestingly, the most dramatic example of relying on the long-term growth of the world's economies involves the idea of REBALANCING. Investors sell the better performing asset classes in their portfolios (currently, high credit quality, short-term bonds), and buy the worst performing asset classes (currently stocks, commodities, low credit quality bonds). While few investors are inclined to do this during periods of severe price declines, the history of price recoveries, and the academic notion that market prices revert to their long-term average returns ("regression to the mean"), support this activity. Rebalancing should be done at pre-determined percentage intervals, rather than on a whim, and definitely does not involve selling the losers in your portfolio.

The problem with taking this view of investing is that the long-term record may not repeat. There is no getting around this possibility, since the history we know and have experienced is just one series of events that might have occurred. Nick Taleb, author of the "Black Swan" and other books with similar subject matter, presents this reality most persuasively. But if this lack of certainty prevents you from relying on the historical record, you should look at your investment alternatives: (i) invest in only the safest securities, which currently provide virtually no investment return; and (ii)accept the almost certain risk that inflation will erode the purchasing power of your money over time. Eventually, it is each investor's personal choice as to which risks to accept, but the decision should be made considering the appropriate factors. Each person's particular asset allocation between high quality, income-producing investments on the one hand, and the higher risk, growth-oriented investments on the other, offers a way to balance risk and reward.

As investment advisors, we have a point of view, expressed many times in our Comments:

1) We believe 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 investments with the most severe price declines in order to provide funds for current needs, then we advise not doing so simply because of the 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 necessary funds. (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.

Nick Levinson

Victor Levinson **Nicholas Levinson**