

News & Views

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New PFPG website

Welcome to the first e-version of our newsletter. In addition to introducing an e-newsletter, we're happy to announce the launch of our new website, www.pfpg.com. Please take a look and update the bookmarks in your browser, since the server address has changed. In addition to a streamlined new look, you'll find some useful new links.

We welcome your comments, and hope you'll forward this newsletter to others who might benefit from our services.

PFPG investment strategy

Since last fall, we've been working hard to monitor unprecedented market developments, to evaluate investment risks and opportunities, and to use our knowledge and skills to guide clients through an extremely challenging period.

We're pleased to report that so far no one has liquidated stock funds in favor of stuffing dollars under a mattress. While portfolios (including our own) have lost significant amounts in the past 18 months, typical client returns for 2008 and 2009 YTD have been in line with the relevant benchmarks.

In light of the upheaval in the financial markets and global economy, we've spent the last couple of months revisiting PFPG's core investment philosophy and strategies. Our process included extensive reading, participating in conference calls with mutual fund managers, and deliberating at length with each other. Among the topics we have explored is whether the era of "buy and hold" investing via traditional stock and bond portfolios is coming to an end. In a world where many diversified portfolios experienced 20 - 30% losses last year, perhaps 50-year-old Modern Portfolio Theory (the foundation for the principles of asset allocation and diversification) has outlived its usefulness. Is it possible that we've entered a new era in which investors are better off seeking out short-term trading opportunities rather than sticking with traditional long-term investment strategies?

Our conclusion is that the investment fundamentals we've employed since launching PFPG back in 1998 continue to be applicable today. Buy and hold is not dead. The tenets of Modern Portfolio Theory – both asset allocation and diversification – remain relevant. Using low-cost index funds rather than high-cost, actively managed funds as the foundation of client portfolios is as compelling in today's environment as it was 11 years ago.

"The New Rules for Investing: Same as the Old Rules", which appears in the June issue of *Schwab Investing Insights*, points out the pitfalls of abandoning traditional approaches. That isn't to say that we haven't learned anything from weathering the Great Recession. While PFPG's core investment philosophy remains intact, we are in the process of introducing some fresh thinking into client portfolios. On a firm-wide basis, we are re-evaluating client risk tolerance/capacity. For some clients, we will recommend changes intended to lower portfolio volatility and enhance long-term, risk-adjusted investment performance. We have refined the target allocations for certain sub asset classes, such as international stocks, real estate, and inflation-linked bonds. We are exploring promising diversification strategies, including absolute return and managed futures funds.

Markets update

Here are 1st half investment returns for selected Vanguard mutual funds:

<i>Fund</i>	<i>Return</i>
Vanguard Balanced Index	+4.2%
Vanguard Total Bond Market Index	+2.1%
Vanguard 500 Index	+3.2%
Vanguard Small Cap Index	+7.3%
Vanguard Total Int'l Stock Index	+10.7%

*Returns include reinvested dividends & capital gains

If you were living in outer space during the first 6 months of 2009, you might conclude from comparing your December & June statements that the financial markets were relatively quiet during the period. Of course, you'd be wrong. After suffering a 38% decline in 2008, the S&P 500 Index had lost an additional 25% by March 9. Fortunately, the gut-wrenching trend then reversed itself, enabling the S&P 500 Index to end the 1st half in positive territory. While the percentages were different, the same pattern held true for the majority of stock & bond indices.

In a mid-March email to clients, we wrote "We agree with the consensus view about a sustained economic dislocation that may take a further toll on stocks in the near term...Our expectation is that we could see several rallies and declines before we move on to another bull market..."

Where do things stand today? We anticipate further market disruptions in 2009, and recommend investors keep short-term expectations in check.

Professional education

To learn the perspectives of visionaries in the money management business, Tom traveled to Chicago in late May for Morningstar's Investment Conference. At the conference, Tom attended presentations delivered by industry heavyweights, including John Bogle (founder of Vanguard), Bill Gross (co-founder of PIMCO), and Jeremy Grantham (Boston money manager who predicted the current credit crisis several years ago), as well as panel discussions dedicated to asset allocation, stocks, municipal bonds, and corporate bonds. In early June, Tom and Brian were in Maryland for a NAPFA financial planning conference, where they heard presentations about alternative investments (commodities, real estate, hedge funds, private equity, absolute return), retirement withdrawal strategies, tax code changes, and techniques for advising newly divorced/widowed clients. Conference take-aways included:

- Discipline is part and parcel of being a successful investor.
- Short-term financial forecasting is impossible (whether it be interest rates, inflation, stock/bond returns), even by experts.
- Prices and investment returns are inexorably linked.
- Tactical asset allocation is tricky.
- Equity and fixed income returns are likely to be modest in the next decade.
- Inflation hedges are essential for investors of all ages: human capital, stocks, tips, real estate. The jury is split on using commodities.

Time to speak up for the fiduciary standard

It's high time that regulations were enacted to protect the investing public from the self-serving practices of many investment banks, broker-dealers, and lobbyists who argue for the maintenance of the status quo. We strongly support the efforts of the Obama Administration to bring the fiduciary standard of care to bear on the entire financial services industry. This means simply that all those who provide investment advice would have to act in the best interest of the customer. The Administration's recently issued white paper, *Financial Regulatory Reform: A New Foundation*, calls for legislation that would require brokers to recommend investments based solely on the customer's needs. A new Consumer Financial

Protection Agency would control the sale of investment products that excessively reward brokerage and financial product organizations at the expense of consumers. Plain-English disclosures of sales commissions, expenses and risks would be required.

The brokerage industry has long fought against being held to the same fiduciary standard as investment advisors because it would cut into their sales profits. If you want to support this legislation, follow the links to find out how to contact the [Senate Banking Committee](#), the [House Financial Services Committee](#), your [U.S. Senator](#), and your [Congressperson](#). For more information about what a fiduciary is and why PFPG has always held to this standard, please look at [Fee Only Financial Planning](#) on our website.

Changes to credit card rules

The new legislation signed into law by President Obama offers many new protections to credit card holders who carry a balance. Among the provisions effective in February 2010, credit card lenders will be required to: give 45 days notice before raising interest rates; refrain from raising rates on existing balances until payments are 60 days late (and if six consecutive payments are made on time, the prior rate must be restored); mail statements no later than 21 days before the due date; honor payments as timely if they arrive by 5 pm on the due date (or the following business day if the due date is Sunday or a holiday); cease issuing cards to 18 – 21 year olds with insufficient income or no co-signer; apply payments to highest rate balances first.

Cardholders who routinely pay their balances in full (ironically called “deadbeats” in the credit card industry) or reap benefits from rewards programs may also see changes as credit card companies scramble to make up the lost revenue. Peruse the mailings from your lender carefully for changes in the annual fee or the credit limit, reductions in rewards programs, shorter grace periods, and higher interest rates. As an alternative, check out debit cards that offer rewards programs (usually with an annual fee). Note that terms of credit union-issued cards are often preferable to those of bank-issued cards.

We wish you a happy, healthy and fun-filled summer!

Sincerely,



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