

adjusted for inflation. However, putting all your eggs in the basket of a single asset class is not the prudent way to manage a portfolio. For investors who diversified across asset classes (e.g., small, medium, and large company stocks, foreign stocks, REITs, domestic bonds and foreign bonds) and who rebalanced portfolios regularly, the 2000s were not a lost decade.

While the widely-tracked S&P 500 declined 9% between 2000 and 2009, domestic mid cap stocks rose 63% and small cap stocks rose 41%. Outside the U.S., while large company stocks in developed markets rose by just 12%, emerging market equities more than doubled. These results argue for diversifying equity risk across capitalization categories, as well as across countries. Owning bonds during the 2000s also boosted investors' returns. Intermediate-term domestic bonds rose 85% through the decade. Clearly, a well-diversified portfolio served investors well in the 2000s. An article in the New York Times on January 1st of this year demonstrated that a \$100,000 portfolio invested \$25,000 each in domestic and foreign equity index funds and \$50,000 in a bond index fund on January 1, 2000, would have ended the decade at \$145,619 (up 3.8% per year); not a barnburner, but certainly not a lost decade.

The index returns, however, do not tell the whole story. In any market, investors stand to lose money if they do not follow a disciplined investment approach. They often make critical mistakes such as chasing hot stocks or sectors, failing to diversify, and attempting to time the market. The negative impact of these types of errors on portfolio returns is magnified in the turbulent market conditions that we have experienced over the past ten years. For investors who piled into risky technology stocks at the zenith of the equity cult in early 2000, bailed out of the stock market in early 2003 after three years of negative returns, jumped back into stocks in 2007 and out again in early 2009, the last decade was truly a disaster. Such investors committed one of the cardinal sins of investing – altering a long-term investment strategy based on an emotional reaction to short-term market movements. Investors can avoid these behavioral errors by developing and sticking to a prudent investment plan. A well thought out investment plan takes into consideration each individual's objectives and ability to tolerate risk. Together, these factors determine the appropriate mix of asset classes for the portfolio. Combined with an appropriate time horizon, broad diversification, low-cost investment vehicles, and regular rebalancing, the right asset allocation has historically proven to be a successful investment approach.

History shows that decade-long periods of sub-par equity returns do not usually follow each other in succession. The disappointing decade of the 1910s was followed by the roaring '20s; the crash of the 1930s was followed by a modest rebound in the 1940s and a significant rise in

Page 3
April 8, 2010

the 1950s. More recently, the slump of the 1970s was followed by two booming decades, the 1980s and 1990s. While no one can predict which asset class will outperform the others in the next ten years, a disciplined investment approach, plus a reasonable saving/spending rate, is likely to produce better results than extrapolating the trends of the recent past.

The April 15th deadline for filing tax returns or requesting extensions is fast approaching. As you file your returns, please inform us of any changes in your tax status that may affect how we manage your portfolio.

Finally, we want to draw your attention to the footnote located at the bottom of your Portfolio Appraisal report. This disclosure is a newly instituted, industry-wide requirement. The U.S. Securities and Exchange Commission wishes to encourage investors to compare assets reported by investment advisers to the statements provided by their custodians.

We thank you for your continued trust and confidence in Dowling & Yahnke. As always, do not hesitate to contact us with any questions or concerns regarding your accounts.

Sincerely,

DOWLING & YAHNKE, LLC