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It's time for another Q&A style newsletter aimed at answering some recent client questions as well as sorting through events in the news that may be confusing or could use some additional explaining. It covers topics such as the repayment of TARP by some of our best known banks and the status of the housing recovery. In a new column called "Conversations With Joe", we answer some questions around the national debt, a media-favorite of late. Additionally, there's the first edition of our new, recurring "By The Numbers" feature that lists some recent economic readings, how they're trending, and what they mean. Finally, we'll conclude this last newsletter of 2009 with a PWA update and the usual market commentary. One more thing before diving in… there are two trivia / finance questions included in this newsletter. The first client and the first non-client who send an email to newsletter@PerpetualWealthAdvisors.com with the correct answer to both questions will receive a $25 Amazon.com gift card. Good luck! ■

Was TARP Just A Big Hoax?

About twelve months ago, Treasury Secretary Hank Paulson, Federal Reserve Bank Chairman Ben Bernanke, and ultimately the members of Congress as a whole, came to the conclusion that the U.S. banking system was on the verge of imminent collapse and needed to be rescued with a $700 billion dollar plan called TARP (Troubled Asset Relief Program). This plan would infuse public (i.e. taxpayer) money into failing banks for an unknown amount of time to allow them to survive the onslaught of losses from loans gone bad, and the crisis in confidence that had locked up the credit markets after the Lehman bankruptcy. While it's now clear that the financial system didn't completely collapse (hard to say how much of that was thanks to TARP and other stabilization plans by the government), the country is still in economic turmoil, mortgages are still being defaulted upon causing more loan losses to the banks that own them, and confidence in a recovery is mediocre at best. Yet in the last few weeks, the very banks who begged for assistance from the government, are now suddenly able to pay the government back, with interest, and go on doing business. How could this possibly be? Was it all just a big hoax?

This is an excellent question that was posed by one of our clients (paraphrased) and one that many must be asking themselves as more and more banks pay back their TARP funds. The answer, in our opinion, is that as much as TARP may have seemed like a hoax, it wasn't. We really were on the brink of disaster, one that could have been far worse than the Great Depression. TARP didn't fix the housing market. It didn't stop foreclosures from happening and mortgage loans from going into default. It didn't stop the stock market from plunging (at least not directly), and it didn't stop the largest jump in unemployment our country has

Continued on page 2

seen in decades. The fact is $700 billion just isn't enough to erase the hangover that the financial and real estate party of the early/mid 2000's left for us. What TARP did do is it gave the banks time, and it gave people time to realize the world wasn't ending tomorrow. The banks still need the money that they're paying back to the government. Mortgage loan losses are still eroding their balance sheets. The difference between now and a year ago is that they can get that money to replace what is lost to bad mortgages and other complex investments from private markets instead. They are issuing a mix of equity and debt securities to private corporations, individuals, and funds in return for cash. Once that money has been raised, they can pay the TARP money back to the government. At this time last year, no one in their right mind would lend non-insured money (debt) to a bank or give a bank money for a share in its future profits (equity) because of the fear that the bank could be bankrupt the next day (e.g. Lehman Brothers). Why are they willing to do it today? Two reasons: 1) the world didn't end and while banks continue to fail, they're doing so in an orderly fashion with other banks taking them over and private investors buying off "troubled" securities. And 2) there seems to be an implicit understanding that since the government stepped in to prevent a catastrophe in 2008, they will do so again if needed to prevent a "too big to fail" bank from failing. This second reason is very troubling. It essentially means that the private markets are willing to invest in these banks because they profit if the banks do well, and the government bails them out if the banks come close to failing again. There's lots of incentive to take risk, when you're sure someone else will bear the brunt of the downside if things go wrong.

"There's lots of incentive to take risk, when you're sure someone else will bear the brunt of the downside if things go wrong."

So, banks are raising money from non-government sources and paying back TARP. It's something they couldn't do before TARP, but now they can, which demonstrates at least short-term success in the TARP plan. Long-term, much work still has to be done to eliminate the "too big to fail" concept, extract the government from its implicit backing of all financial institutions that are "too big to fail", and still maintain the confidence level in the private markets so that they will invest in those institutions without that backing. Was TARP a hoax? No. Did it help to stop a devastating catastrophe over the short-term? Most likely. Has it solved the root cause of the problem? Not even close. ■

Quick Hits

- Looking for a website that can help you track your spending? Check out mint.com, quicken.com, geezeo.com, buxfer.com or wesabe.com.
- Monitor your approximate credit score over time at creditkarma.com
- In November, Congress extended the $8,000 first-time homebuyer tax credit through June 2010 (must be under contract by April 30th) and created a $6,500 tax credit for current homeowners who have resided in their home for at least 5 years.
- Due to the low-inflation in 2009, social security payments to retirees will not increase in 2010 Since Medicare premiums are increasing for most of them, social security checks will actually decrease.
- Tax rates will likely increase in 2011 on earned income, dividends, and capital gains as current law expires leading to some big tax planning opportunities in 2010.
- It looks likely that in 2010, Congress will pass new estate tax law that will allow couples to combine their estate tax exemption which will eliminate the need for complex A / B trusts to maximize use of the couple's combined exemption. ■

By The Numbers

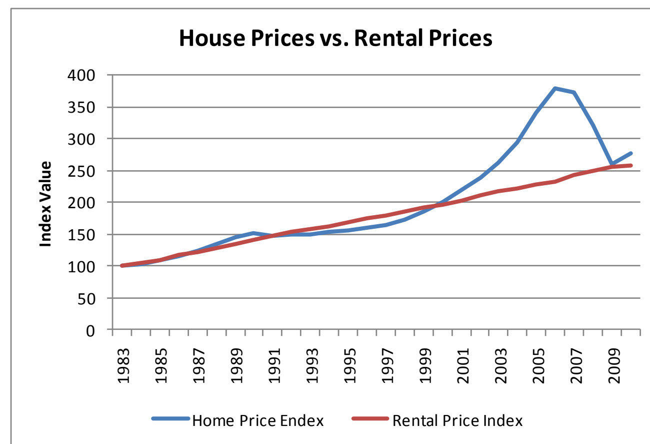
Below is a conglomeration of recent economic statistics along with recent trend and commentary on its economic impact. This is the stuff you see on the front page of the paper or that you hear on the nightly news, but usually without a good explanation as to what it means. Updated information can be found on the economic indicator page of the PWA website. As always, if you have any questions, please contact your advisor. ■

Indicator	Description	Last Reading	Trend	vs. Last Month	vs. 3 Months ago	vs. Last year	What it means	Summary Effect on Economy
Gross Domestic Product (GDP)	Aggregate dollar value of all good and services produced by the country.	$14.242 Trillion	Flat to slightly increasing	N/A	0.70%	-2.09%	This recession is likely over. The economy is growing again, slowly, and probably will continue to do so, slowly	OK
Productivity	Measure of the productivity of workers and the cost necessary for businesses to produce a unit of output.	148.497	Increasing dramatically	N/A	1.98%	3.98%	As usually happens during an economic downturn, layoffs, and cost-cutting, output per unit of input increases. Continued increases are necessary as the economy recovers to sustain growth.	Good
Consumer Price Index (CPI)	Aggregate measure of the costs felt by consumers in purchasing a basket of goods.	216.33	Increasing slightly	0.07%	0.23%	1.84%	Key measure of overall inflation. Prices remain relatively stable, especially if excluding volatile food and energy prices	Good
ISM Index	Institute of Supply Management's reading on the manufacturing sector of the economy. A reading above 50 indicates expansion. A reading below 50 indicates contraction.	53.6	Increasing slightly	-3.77%	1.32%	48.07%	Indicates the manufacturing sector is resuming slow growth from depressed levels caused by the recession. Significantly better than this time last year.	OK
ISM Services	Institute of Supply Management's reading of the non-manufacturing sector of the economy. A reading above 50 indicates expansion. A reading below 50 indicates contraction.	48.7	Steady	-3.75%	-7.94%	43.70%	Indicates the services sector is lagging behind the manufactering sector and having a harder time resuming growth. Since the U.S. has become more of a service producing rather than goods producing nation, this is an important indicator that the recovery may be slow. Slill, significantly better than this time last year.	Fair
New Jobless Claims (4 wk average)	Seasonally adjusted number of people nationwide who filed new claims for unemployment in the previous week. This essentially represents new layoffs each week.	465,250	Decreasing	-6.15%	-16.06%	-14.83%	Number of new people filing for unemployment each week is decreasing steadily, but is still exceptionally high	Bad
Continuing Jobless Claims (4 wk average)	Seasonally adjusted number of people nationwide who continued to file for unemployment in the previous week.	5.233 Million	Decreasing	-8.77%	-17.06%	-12.56%	Number of people continuing to file for unemployment each week is decreasing steadily, partly due to benefits running out and partly do to some people finding work. This number is still exceptionally high.	Bad
Non-farm Payrolls (3 month avg)	Number of non-farming jobs available nationwide in the previous month.	130.996 Million	Decreasing slightly	-11000	-261000	-4759000	Decline in available jobs is slowing, but is still very high. Unemployment won't turn around for good until we're gaining at least 100k jobs per month to keep up with population growth.	Bad
Unemployment Rate	The percentage of people who are looking for work that are currently unemployed.	10.0%	Increasing slightly	-0.20%	0.30%	3.20%	Unemployment is very high, and while the most recent month showed a decline in the rate, the trend is still increasing.	Very Bad
Retail Sales	Seasonally adjusted total monthly receipts at retail stores.	$164.278 Billion	Increasing slightly	1.29%	0.36%	1.90%	Retails sales are increasing as the economy recovers, but are still down more than 7% from the same time two years ago.	OK
Consumer Confidence	An index created through a survey of consumers that gauges their feeling on the current economy and their expectations of the future.	52.9	Steady	4.55%	-0.94%	37.05%	Consumer confidence has bounced back significantly from it's lows in Februrary, but still nowhere near it's highs in 2007. Can be a contrary indicator for the economy, with really good numbers showing indicating a peak and really bad indicating a trough.	Fair
Consumer Credit	Measure of aggregate dollar amount of outstanding loans to individuals.	$2.483 Trillion	Decreasing Sharply	-0.14%	-0.63%	-3.58%	Outstanding credit continues to pull back at very a very sharp rate as people pay down debt and save more. This is very good for the economy long-term, but terrible for the economy short-term as it indicates less spending and therefore less economic production.	Very Bad
30-year fixed averge mortgage rate	Average rate on new mortgages in the previous week. Published by Freddie Mac	5.14%	Steady	0.26%	0.08%	-0.15%	Mortgage rates are still near historical lows and are being helped by the Fed's 0% Fed Funds target and purchases of mortgage backed securities. The program is set to end in March	Very Good
Median Home Prices	Median price of homes sold in the previous month.	$ 172,600	Decreasing	0.23%	-2.65%	-4.27%	Though up from their trough levels earlier this year, home prices have started to slide again on a national level. Since declining home prices kicked off the recent recession, it's hard to believe we'll see significant recovery until home values stop declining.	Bad
Existing Home Sales	Seasonally adjusted, annualized rate of existing home sales for the previous month.	6,540,000	Increasing Sharply	7.39%	28.49%	44.05%	Sales of existing homes have spiked sharply over the past few months, likely due to the first-time homebuyer tax credit which was supposed to end in November but has now been extended to April 2010. It remains to be seen what sales will look like once the credit is gone.	Very Good
Existing Home Inventory	Number of homes currently on-the-market	3,518,000	Decreasing	-1.32%	-10.35%	-15.49%	The number of homes currently for sales has decreased in recent months due to the spike in sales. Foreclosures and another wave of mortgage rate resets might push this back up.	Fair

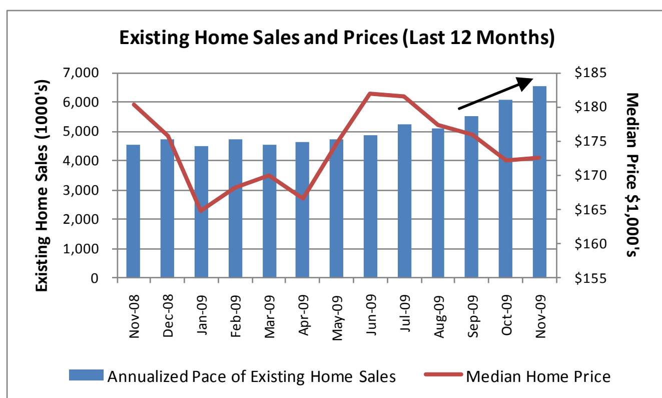
Has The Housing Market Bottomed Yet?

By now we all know we were in the midst of a housing bubble earlier this decade, which peaked in 2006-2007 in most areas. While it's easy to say in hindsight, one of the clearest depictions of just how dislocated prices were compared to the fundamental value of a home is a comparison of housing prices to rental prices. A house's value can always be tied back to the cash flows that an owner of that house could earn if she rented the house to a tenant. In other words, a good way of determining if a house is too expensive compared to renting is to determine if you can cover the costs of ownership (mortgage interest, insurance, property taxes, association fees if applicable, maintenance, potential vacancy, management, etc.) with the rental income. If you're planning to buy a rental property, contact your advisor who can help you project the long-term return on your investment taking all of these factors into account.

The U.S. government tracks average rental prices across the country in an index which is a component into inflation measurements. Industry organizations track median house prices over time and so it's easy to compare how each trends in relation to the other. Not surprisingly, as the chart below shows, the house price index and the rental price index track each other quite closely in most cases. What can also be seen is the huge spike in the home price index with no accompanying spike in rental prices from 2000 to about 2006-2007. As is usually the case in a bubble, prices have returned to a level that coincides with their fundamental value (measured by rental prices). So, does this mean the market has bottomed? Not necessarily, because there's nothing to say that prices can't fall to an extreme on the other side of the rental price index just like they peaked above it, but it does look like market is reasonably priced when compared to historical rents.



Additionally, there have been strong signs of life in the housing market in recent months with existing home sales gaining ground in four consecutive months (Aug-Nov). Not only have sales been increasing month over month, November's sales are up 44% over November of 2008, showing the people are definitely out there buying. The number of homes for sale has also come down in the past four months, from just over 4 million, to just over 3.5 million. If the pace of sales from November could continue and no additional houses were put on the market, the current inventory of homes for sale would be depleted in 6.5 months. That compares to about 4-5 months of supply in a steady housing market, and a peak of 10-11 months around this time last year during the worst of the downturn.



What about prices? There are two different nationally recognized sources for home prices, the National Association of Realtors (NAR) and the Case-Shiller (CS) Index. CS always runs a month behind NAR, so we only have CS data through October where both

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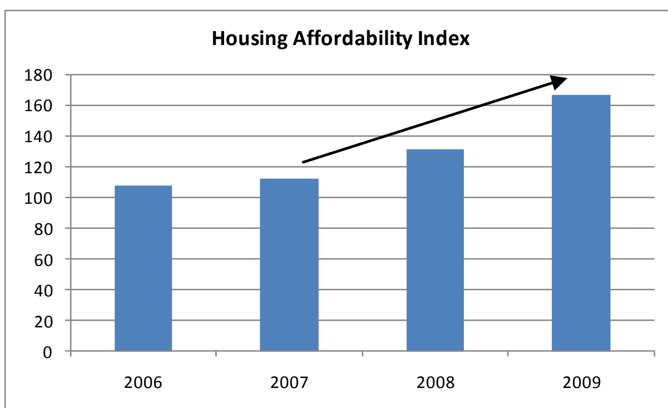
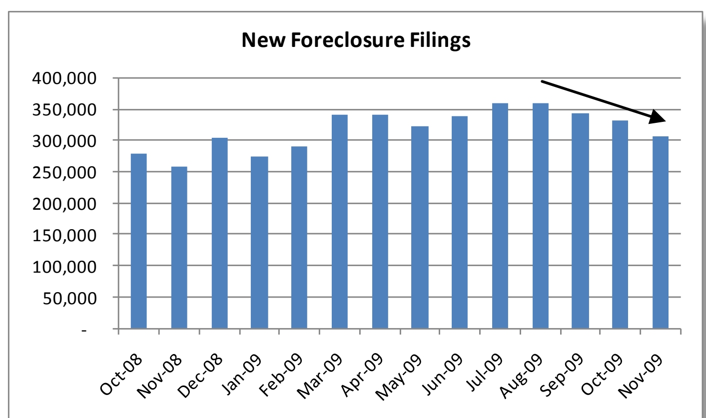
sources show about an 7-8% drop in median home price year-over-year, but CS shows no change in month-over-month price vs a decrease of about 2% from NAR. NAR's November report shows virtually no change in price compared to October. Both reports show a trough in prices in April of 2009, at a level approximately 5% lower than today. It's a mish-mosh of data, but it appears there has been some stabilization in prices, and when compared with the increase in sales data, it looks as though a recovery is in progress.

Before concluding that the housing crisis is over however, we have to look at the extraordinary circumstances that are currently affecting buyers as well as the impact of potentially increasing foreclosures. First, the First-Time Homebuyer Tax Credit of $8,000 was set to expire in November which could have influenced buyers who were planning to buy soon to accelerate their purchase into the last few months. Congress has since extended (to April) and expanded (to include some existing homeowners) the credit, but at some point it will have to end. The extended credit could cause a lull in sales in December/January before spiking again to beat the April deadline.



Second, the housing market is still being stimulated by the Federal Reserve as they purchase mortgage backed securities on the open market to keep mortgage rates low. With prices down significantly and historically low interest rates at the same time, home affordability is extremely good. NAR calculates a housing affordability index based on median income vs. the principal and interest owed monthly on the average mortgage for a home with the median home price. This index has soared as prices and rates have come down, but incomes have remained fairly steady in the past few years. The Fed has indicated that it plans to end its mortgage purchase program in March 2010 which could allow rates to start increasing. Combined with the credit ending in April 2010, this could put pressure on the housing market for a second wave down in prices.

Also potentially impacting prices going forward is the rate of foreclosures. Again, a bit of improvement in recent months as new foreclosure filings have decreased. This is in part due to the moratorium on foreclosures in some states as well as the ramp down in subprime, adjustable rate mortgage (ARM) resets. But, while we're almost out of the woods on subprime, there is a new wave of ARM resets coming, in the form of option-ARMs (see chart on page 6). These are adjustable rate mortgages that allow the borrower to choose his monthly payment, sometimes even less than the interest amount, which can result in increasing rather than decreasing mortgage balances. As those rates reset from extremely low teaser rates, more homeowners could find themselves unable to make their payments, just like the subprime situation that peaked in 2008.



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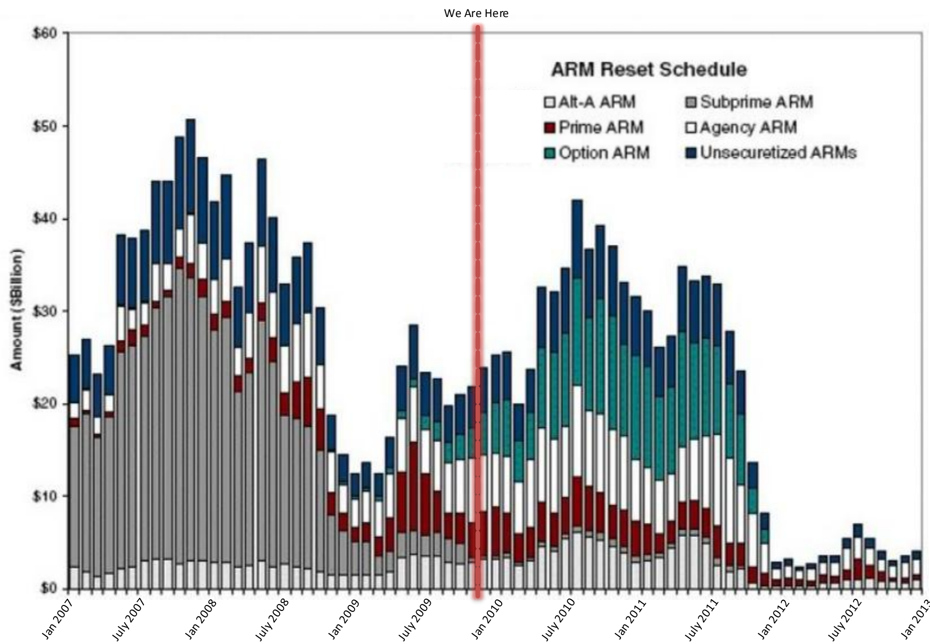

Source: Credit Suisse Mortgage Strategy Research.

Another factor that could restart another wave of foreclosures is the increasing number of homes that have negative equity. As prices continue to fall, more owners find themselves upside-down on their mortgage, owing more than the house is worth. The Wall Street Journal recently published an article with some staggering statistics in it on this point.

- 23 % of homes that have a mortgage are worth less than the mortgage balance
- 50% of under-water homes are more than 20% under-water
- 40% of mortgages started in 2006 are underwater
- 10% of mortgages started this year are already underwater (so much for bargain hunting!)

The lack of equity in many homes contributes to the growing number of foreclosures which in turn puts more pressure on neighboring home values.

So, while we have definitely seen recent signs of life in the housing market in terms of sales and prices, there is good reason to suspect another tick up in foreclosures, mortgage rates likely increasing after March, and the homebuyer tax credit expiration slowing down the pace of sales again. For those reasons, it's too early to feel like the housing market and housing prices have bottomed on a national level. Temporary stability, yes. Recovery, not quite yet. ■

Trends: What's In / What's Out

Out	In
High Cost Mutual Funds	Low Cost Electronically Traded Funds (ETFs)
Traditional Bank Savings Accounts	Online Bank Savings Accounts
Money Market Funds	Short-Term Corporate Bonds
Retirement Dated Funds	Retirement Planning
High Premium Health Plans	High Deductible Health Plans (HDHPs)
Whimsical Spending	Emergency Funds
Quicken / MS Money (Offline)	Mint.com / Quicken.com
Life Insurance As An Investment	FDIC Insurance
Credit Cards For College Students	Financial Education For High School Students
Adjustable Rate Mortgages	Downpayments
Complaining About Your Job	Being Happy To Have A Job
Consumer Debt	Government Debt
High Tax Breaks	Higher Tax Rates
Subprime ARM resets	Option ARM resets

Conversations With Joe: How Big & How Bad Is The National Debt?

By now, everyone knows that the U.S. government is in a lot of debt. But really, in words we can all understand, how much is it, what are the ramifications, and why should Common Joe Taxpayer really care? Let's answer this with a series of simpler questions and answers in this fictitious conversation with Joe himself:

Joe: *People talk about the big national debt all the time. It doesn't really seem to affect me anyway, but how big is it?*

PWA: *Just over 12 trillion dollars.*

Joe: *That sounds big. But the U.S. is huge and there are a lot of people with a lot of money, so is it really that big per person?*

PWA: *If we divided it evenly among everyone in the U.S., each person would owe about $40,000.*

Joe: *Oof! That's huge… I don't have that kind of money! Good thing no one's knocking on my door asking for that.*

PWA: *What's more disconcerting is the deficit, the rate at which we continue to borrow and the debt continues to increase.*

Joe: *How much is that?*

PWA: *In fiscal 2009 (runs from Oct 2008 to Sep 2009), the government took in $1.42 trillion less than it spent and next year is projected to be worse. Some projections have the debt doubling in the next 5-10 years.*

Joe: *Where are we getting the money from? I mean, that's a heck of a credit limit.*

PWA: *About 40% of the debt is held internally within the government, borrowed from trust funds like Social Security and Medicare or from the Federal Reserve which has been printing money to buy treasuries as a way of keeping rates low. Another 25% is owned by foreign countries (China and Japan are the two largest holders by far). About 5% is owned by state and local governments. Individuals, pension plans, and insurance companies hold most of the rest.*

Joe: *So we're paying interest to all those groups?*

PWA: *Yes, in 2009 the U.S. paid approx. $380 billion in interest with the average interest rate being estimated at 3.6%. That's almost 20% of our total tax revenue. It's the equivalent of the average U.S. household making $50k per year and using $10k of it to pay credit card interest.*

Joe: *3.6% is a lot lower than credit card rates though.*

PWA: *It is. That's because the U.S. government has never defaulted on any of its loans and has a fantastic credit history.*

Joe: *That's a relief. But if 20% of our tax revenue is spent paying interest, and our debt is increasing rapidly, won't more and more of our tax revenue have to go toward interest, forcing us to borrow more and more?*

PWA: *That's precisely right. It starts a very ugly cycle that would make it exceptionally difficult to ever pay that debt back.*

Joe: [scratching head] *Well I'm not lending any money to the government at 3.6% interest then. I may never get it back.*

PWA: *If everyone reaches that same conclusion then rates are going to have to go up in order to keep borrowing.*

Joe: *But that's even more interest. We can't afford that! How do we get out of this mess?*

PWA: *We either raise taxes a lot, we cut expenses a lot, or some combination of the two. Or, we print money*

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> *"We either raise taxes a lot, we cut expenses a lot, or we print money faster and faster which will make the price of everything increase"*

faster and faster to pay our interest and principal which will make the price of everything increase (inflation) since there's more money out there for everyone.

Joe: *Things cost enough already. Sounds to me like Uncle Sam is going to come collecting soon. $40,000 per person you say?*

PWA: *Well, it won't be evenly distributed, but increased taxes are almost a certainty. So is a tighter belt on government spending at some point which means withdrawing the stimulus, cutting jobs, etc. We're using a lot of resources to get the economy going again and at some point we're all going to have to pay for them.*

Joe: *Won't that just put us right back into a bad economy again?*

PWA: *If it's managed correctly, hopefully not. But it definitely could.*

Joe: *So it might not affect me personally today, but it sounds like this national debt thing is going to affect me tomorrow. Higher taxes, maybe higher unemployment, maybe higher inflation… now I undestand. I don't like it, but I get it.*

PWA: *Good, when everybody "gets it", we'll all be one step closer to fixing it.*

Joe: *Can we keep having conversations like this each quarter?*

PWA: *Absolutely. I'll even publish them in the PWA Newsletter for everyone to see. The column will be called "Conversations With Joe". It's ok if I use your name right?*

Joe: *Of course, I'll be famous. Thanks!* ■

Markets: Pulling Into The Station

Earlier this year, we referred to the financial markets as a seemingly endless roller-coaster, both in performance and in the emotional effect that investors were feeling. The 4th quarter of 2009 felt like that roller-coaster might finally be pulling into the station for at least a pause before the next ride. Most asset classes settled down and returned in the +/- 2% range, with emerging markets, high-yield ("junk") bonds, and commodities like gold and oil being exceptions to the upside.

Markets At A Glance

Segment*	2008	Last 3 Months	YTD 2009	
US Large Cap Stocks	-36.8%	1.6%	16.8%	thru 11/30
US Small Cap Stocks	-36.1%	-0.5%	22.6%	thru 11/30
Foreign Developed Stocks	-41.4%	1.1%	21.5%	thru 11/30
Foreign Emerging Market Stocks	-50.0%	6.4%	51.6%	thru 11/30
US Treasury Bills	1.8%	0.0%	0.3%	thru 11/30
US Med Term Treasuries	18.0%	1.0%	-4.2%	thru 11/30
US Long Term Treasuries	33.8%	-0.2%	-17.5%	thru 11/30
US Aggregate Bond Index	5.2%	1.3%	3.8%	thru 11/30
US Corporate Bonds	0.3%	1.3%	8.7%	thru 11/30
US High Yield Bonds	-23.9%	5.3%	22.2%	thru 11/30
US REITs	-37.0%	1.9%	13.7%	thru 11/30
Gold	3.0%	9.8%	18.5%	thru 11/30
Oil**	-54.7%	11.3%	81.8%	thru 11/30
Aggregate Commodities	-36.7%	5.5%	13.4%	thru 11/30
US Home Prices	-18.6%	3.3%	-2.7%	thru 9/30
Inflation (CPI) Y/Y	0.1%	0.2%	0.5%	thru 11/30

*All asset returns shown are returns by representative ETF except oil
**Oil returns measured by front month futures contract

The story remains the same as that of last quarter. Government intervention continues to prop up virtually all markets through extremely stimulative monetary and fiscal policy. In theory, this is allowing consumer and employer confidence to slowly return while memories of the fear that dominated the market in the early part of the year fades. Employers have slowed their layoffs, consumers have resumed spending, although at levels that are far from the peak before the crisis began. The question that remains is

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whether the financial markets can continue to ride on their own once the training wheels are taken off. 2010 will likely provide an answer as the Fed begins to remove some of its monetary stimulus and begins raising interest rates, while Congress pulls back on certain parts of their spending, letting certain tax credits expire and raising income tax rates, capital gains rates, and dividend rates into 2011.

While increased tax rates and slower government spending will almost certainly slow down the economic recovery, it's a necessary evil to prevent a bigger problem down the road as debt and interest payments weigh even heavier on the country's finances. The same can be said for the necessary actions of the Fed to remove some of the liquidity facilities they have provided through the crisis. In 2008/2009 we experienced a consumer and business correction. In 2010/2011, we need to experience a government sector correction to go along with it.

So what should we expect for next year? From a stock market perspective, there is still room for moderate growth despite being up almost 70% from the bottom. [Trivia question #1: If your portfolio fell by 50% from Oct 2007 (stock market peak) to March 2009 (recent stock market trough) and increased 50% from March 2009 to today, how much has your portfolio increased or decreased from October 2007 to today?] It's likely to be a bumpy road though as the recovery in corporate earnings is somewhat offset by the tightening of the fiscal and monetary belts of the government. Overseas stocks also have some room for growth, especially if the U.S. dollar continues its bearish trend. For the bond market, there seems to be only one way to go. That is toward higher interest rates. For this reason, we're keeping client bond investments in short-term funds that will benefit from higher rates over time rather than being locked into long-term rates. We're also favoring corporate bonds over purely government bonds since the economic rebound will increase the credit quality of those issues and offset some of the rising interest rates that we expect. For commodities, which have the tendency to defy logic and trade based on momentum and speculation, we expect continued increases in prices, though nowhere near the peak of 2007. This is primarily due to the growth of emerging market nations like China where enormous demand for food and energy continues to grow as their middle-class expands like that of the U.S. in the early/mid 1900's. For real estate, we're probably a year away from being out of the woods, with commercial real estate likely to take a beating in 2010 along with a residential market that will continue to struggle.

Through all of this, we currently have no adjustments to our to model portfolios (added real-estate and high-yield bonds back to our models in early 2009), though a slight bias toward more conservative investments like consumer staples, short-term bonds, and utilities in our more targeted investments. We also continue to like energy due to its correlation with the costs that our clients face in their everyday lives, and like preferred stocks due to their relatively high yield and more senior status in the financial structure of firms (preferred stocks have a higher claim on assets than common stocks if a company goes bankrupt). Overall though, we remain very diversified and continue to stress client financial plans and goal-based investing over trying to time the markets. [Trivia Question #2: Who coined the now-famous quote about the stock market that follows: "Markets can remain irrational longer than you can remain solvent?"] We've said it again and again, but keeping an emergency fund of cash and liquid investments that's appropriate for your expense level, using short-term, high-quality bonds for your short-term goal funding, and a more aggressive diversified portfolio of stocks and some bonds for your long-term goals continues to be the most effective portfolio solution. We'll talk through your asset allocation during your upcoming annual review and ensure that the strategy we're using continues to be appropriate for your financial goals. ■

PWA Update

With more than 30 ongoing clients and several other planning and tax prep clients, PWA is now managing close to $6M in assets. Our clients span 11 states and include self-employed individuals, dual and single income families, homeowners, renters, those in debt, middle-incomers, and some who are quite wealthy. Among other things, during 2009 we've helped clients to:

- invest and take advantage of a volatile market (some who consistently invested according to their plan are even up from the market peak in 2007 now)
- build an appropriate emergency fund
- refinance their mortgage
- prepare and optimize their taxes
- set up wills that would leave assets in trust to their children
- determine how much they could afford to spend on a new house
- select the optimal financing option for home and car purchases
- choose the best health plan offered by their employer
- determine and obtain simple, effective life insurance if and only if it was needed
- correct past tax return errors
- review retirement plans and select the lowest cost, most appropriate investments
- take advantage of a tax credit (like the first-time home buyer)
- set up self-employed retirement plans
- budget through a job loss / job change / family addition / family death
- establish a budget to enable financial goals
- start / continue a college fund
- move from employee to contractor and contractor to employee status
- manage an inheritance
- restructure debt
- establish gifting plans
- merge finances in a new marriage

Through all of that, our biggest achievement is that we've seen several client financial goals achieved this year, a great accomplishment especially in this economy. Thank you for being a PWA client and for allowing us to help enable and share in your success. We hope you have a safe and happy holiday season and look forward to sharing in a prosperous 2010. ■

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