



945 Technology Blvd., Suite #102, Bozeman, MT 59718

Dear Client,

Enclosed find your 3rd quarter 2009 performance report.

As we predicted, after the “gloom and doom” of mid-March, the stock markets have recovered quickly to reasonable levels. Again, we stress that it will be a long time until the U.S. market recovers to its unrealistically high 2007 levels. There has been some excellent research published recently that conclusively demonstrated that the stock market, due to the prolonged unrealistic bull market of the 80’s and 90’s, was ridiculously high in 2000, and that the 2000-2002 downturn, although severe, only brought the market down to a moderately overvalued level. When we look back from 1982 (the start of the biggest bull market in history, an 18 year run when the market had an unrealistic 18% return) until the end of 2008 (after two of the biggest bear markets in history, resulting in an annual negative return of -3.1%), the U.S. market returned an average of 10.1% annually (6.7% over inflation) over that entire period, which is almost exactly the historical long-term return of the market.

Going forward, we feel the stock markets are currently very close to reasonable value, and our projection (which is shared by most authorities) is for an average future long-term return of 4-5% over inflation. However, just as in the past, it will be a bumpy ride, with many unexpected market downturns. Yes, this is lower than the historical return, but stock dividends (a major component of returns) are lower now, and not expected to increase. The bad news (which, fortunately, doesn’t apply to you) is that most investors will not get nearly this 4-5% return available in stocks, as they will make all the wrong choices in their investing. As always, adhering to a disciplined strategy through thick and thin is the surest way to maximize your wealth at a prudent level of risk. Additionally, for those of you making portfolio withdrawals, your diversification should provide some protection against having to sell stocks for income at an inopportune time.

We would like to recommend a new book by our favorite author, Bill Bernstein, to you. [The Investor’s Manifesto](#) is due out in November and will be available through Amazon and most major book retailers. Bill is generally regarded as one of the world’s leading authorities on investing, and has incorporated the “lessons learned” during the latest market downturn in the book. You will find it entertaining, enlightening, and very supportive of our investment philosophy.

As always, we value your continuing confidence in us, and are here to answer any of your questions and address any concerns.

Yours Truly,

Bob Frey

Doug Babcock

Fee Only Investment Management and Financial Planning