THE INDEPENDENT ADVISOR

THE FIDUCIARY GROUP®
INVESTMENT MANAGERS

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THE VALUE OF DAILY VALUATION

By Malcolm L. Butler, J.D.
President

Recent economic data suggests that the worst of the recession is behind us. The stock market has been moving higher in anticipation of a recovery in the business community. While the future is still uncertain, we will likely see increased economic activity over the coming months.

Of all the lessons that have come out of the past many months, one of the most useful ones for investors is the value of price transparency and liquidity.

Facing the Music

This recession was characterized by a dramatic loss in value across the entire range of asset classes. But while all owners of assets were negatively impacted, some asset owners suffered worse than others. Owners of stocks, bonds and mutual funds felt the pain first because stocks and mutual funds trade daily on an exchange, and similarly bonds trade daily over-the-counter and are valued daily by pricing services. The benefit of having exchange-traded or highly liquid over-the-counter traded assets is that there is always a market for them, meaning that those assets can be converted to cash when necessary and desirable.

Prices for exchange-traded and daily-valued over-the-counter assets are transparent and readily available. Owners of such assets thus are aware of the assets' values each and every day. During the market declines of the past year and a half, owners of these liquid assets were fully and regularly (and yes, painfully) informed of the hits to their net worth. Because of the price transparency of daily-valued exchange traded and over-the-counter assets, those whose balance sheets were largely populated by such assets readily faced and adapted to the reality of price depreciation.

The same can not be said for non-exchange traded assets or non-daily-valued assets, where each transaction must be separately negotiated. There is no daily pricing or exchange-like trading mechanism for assets such as real estate, closely held businesses, partnerships, and complex financial instruments such as asset-backed securities. Valuation is generally based on a historical record of comparable sales or infrequent appraisals. When sales activity of that class of assets slows, there is even less basis to determine realistic values.

The consequence of an inaccurate perception of value is that owners of non-exchange traded or non-daily valued assets don't recognize value impairment in a timely manner, and are not as quick to adapt their financial decisions to the new reality. These owners often end up holding these types of assets for a period beyond which they can make a reasonable return on their investment. Worse yet, owners of non-daily valued assets can make risky decisions about incurring further liability, erroneously thinking they are worth more than in reality they are. In this sense, illiquid, non-daily valued assets can "contaminate" a balance sheet, leading both borrowers and lenders to make bad decisions.

The Nature of Leverage

There are two ways to purchase assets—cash or credit. Most investors pay cash for their investments

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(note that we do not view one's primary residence as an investment). However, some investors use leverage to increase their returns. Investors using this strategy, called margin, take on debt in order to have the capital to buy more assets. This strategy works well during periods of rising asset values, as the investor is using the lender's capital to expand his net worth. But when asset values decline, the magnitude of exposure can wipe out the investor's equity in the asset, leaving the investor potentially owing more than the asset is worth.

Consider the difference in lending practices based on liquid versus illiquid collateral. Lenders loan money based on the value of the collateral that secures the loan. When the collateral is accurately and continually priced, lenders make "real-time" appropriate lending decisions. In the case of margin lending based on daily valued exchange-traded assets such as stocks, lenders make an immediate call to add or sell assets if the value of the assets falls below a certain level.

Compare this to lending based on illiquid non-exchange traded assets such as real estate or private securities. The lack of accurate, daily valuation leads lenders to make mistakes in the pricing of the credit they provide to borrowers. One of the striking lessons of the past few years is that lenders (both consumer and commercial) offered too much credit on the basis of the perceived (not real) value of the loan collateral. Lenders also charged too low an interest rate for the deflationary risk associated with those assets.

In the years leading up to the recession, we experienced a robust real estate market with continually increasing sale prices. Other assets including stocks and bonds also rose in value. With the increase in asset values, households and businesses incurred a massive build-up of debt. From Main Street to Wall Street, a pervasive attitude developed that asset values will continually rise, safely supporting additional debt. Businesses and households became more and more laden with debt based on "contaminated" balance sheets.

Balance Sheet Contamination

Once asset values started to decline, credit as a source of capital dried up. And because borrowers often had taken out loans with short durations, the loans came due just as the value of collateral was sinking. At that point, households and businesses realized that they had assumed more debt than their cash flow could support. Lenders now had securitized interests in assets that were dropping in value below the loan amounts and, worse, there was no quick and easy method to convert those assets to cash.

The mistake of so many investors, households, and businesses was to incur excessive debt which could only be rationalized if the value of the collateral supporting that debt continued to increase. Because the owners of illiquid, non-daily valued assets could not rely on an exchange or daily over-the-counter market for accurate valuations and continual liquidity, owners of these assets ended up misjudging the severity of their asset impairment.

Though the owners of daily valued, exchange traded assets were the first to "feel the pain" of declining net worth in real time, those same investors now are enjoying rising prices on the exchanges.

The cumulative effect of contaminated balance sheets across the board, from households to banks and businesses, caused the recession. The main lesson: investors holding assets with clear and transparent values and daily liquidity have a tremendous advantage during times of high market volatility, particularly when markets freeze up as they did last year. Liquidity and transparency go hand in hand, and are critical components of sustainable wealth.

In the Spotlight!

THE BLOOD ALLIANCE

Saving Lives Through Blood Donation

The Fiduciary Group is sponsoring a blood drive on Tuesday, October 27, from 10 am to 1 pm. Please join us and help save lives right here in Savannah!

Someone in our community needs blood every 8 minutes. All blood donations will benefit Memorial University Medical Center, which includes the only designated children's hospital in this region as well as the only Level 1 trauma center in SE Georgia. Memorial uses about 1,000 pints of blood each month for all types of operations, accident victims, acute burn victims, cancer patients, and for those with catastrophic diseases such as hemophilia. There is no substitute for human blood. The need for blood is real and when you give blood, you give life - it's that simple. To donate, you must be at least 17 years of age, weigh at least 110 pounds, and be in general good health.

Share your good health and join The Fiduciary Group team on October 27. The blood drive will take place in the parking lot of The Fiduciary Group's office at 310 Commercial Drive.

To schedule an appointment contact Carey Black at (912)303-9000 or (912)447-6871 (direct).

ZERO PERCENT

***Joel P. Goodman**, CFA*
Chief Investment Officer

The current recession began in December 2007. At that time, the Federal Reserve's target federal funds rate was 4.25%. Over the course of the following twelve months, the Fed reduced rates to 0.0%, the exclamation point being a 1.0% reduction in December 2008 as the U.S. financial system was on the brink of collapse. The Fed has kept its target rate at 0.0% and indicated at its last meeting on September 22, 2009 that it intends to keep rates at "low levels for an extended period."

Aggressive action by the Fed helped ensure that the economy avoided a complete meltdown, but the ***zero percent policy*** also explains much of what has happened in the markets in the past six months and will help explain what may influence the markets over the next year.

A target federal funds rate of zero percent is not normal. Then again, the extreme chaos in the market during the fourth quarter of 2008 dictated that this was the right course of action at that time. The intent was clear – unclog the credit markets so that businesses could function. The results have been good in many ways (but side effects will likely result).

First, the economy has begun to stabilize. Gross domestic product (GDP) has rebounded from a decline of 6.40% during 1Q09 to a decline of 0.70% during 2Q09, and consensus GDP growth forecasts call for growth of 2.5% during the second half of 2009.

Second, stock and bond markets have both rallied sharply from the March 2009 lows as confidence has returned. Improving capital market conditions have been important because they encourage corporate investment, which is constructive for the economy. As an aside, the symmetry in the equity markets is interesting. From the October 9, 2007 high to the March 9, 2009 low, the markets declined by 56.8%. From the March 9, 2009 low to September 30, 2009, the markets rallied by 56.3%. Of course, a dollar invested on October 9, 2007 would be worth only $0.68 at September 30, 2009.

The bond market rebound has been as impressive. According to Bloomberg market data, credit spreads on high yield (speculative) debt were about 1300 basis points (100 basis points = 1%) above comparable treasury debt in early March 2009. Since then, credit spreads have narrowed to about 600 basis points. Although "basis points" and "spread narrowing" may not be familiar terms to all, the point is that credit market conditions have improved significantly in the past six months. While access to capital has improved, preferred access is still given to quality companies with strong balance sheets. Current credit spreads on "AA" rated (high quality) investment grade debt of less than 1% reflect the advantage these companies have.

While recent market gains buoy confidence, it is worth noting that a zero percent policy distorts investment decisions and business decisions. It may be comfortable to earn nothing as long as markets are falling, but harder to stomach as markets rise. With money market funds paying less than 1% and 10-year Treasury yields paying just over 3%, investors have been moving out on the risk curve to earn higher returns. A recent quotation from a Wall Street Journal article describes this aptly, "People feel they have to choose between the frying pan of zero yields and the fire of risk. And they're sick of the frying pan, so they're jumping in the fire." (WSJ, 9/19/09, p.B1) With nearly $4 trillion invested in money market funds, a zero percent policy will likely encourage this trend to continue.

Corporations are growing just as weary of sitting on cash and are starting to put excess cash to work. According to Standard & Poor's (S&P) Equity Research, cash on the balance sheets of non-financial companies was a record $700 billion, up 16% from two years ago. Over the last several years, companies used available cash to repurchase shares or pay dividends. This has changed. S&P recently noted that share buybacks declined by 72% over the prior year and a record low 233 companies increased their dividends during the second quarter of 2009.

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REACH FOR YIELD AND REAL RETURN

***Scott B. McGhie**, CPA*
Investment Manager

Reaching For Yield

The world of fixed income has been a popular destination for investors seeking to regain lost income as money market rates have declined to near zero. In the quest for a return on cash that is greater than zero, investors are incurring risks in fixed income that may not be obvious. Call, contraction, default, duration, event, extension, inflation, interest-rate, liquidity, pre-payment, reinvestment, and transaction costs are varying risks an investor should consider when purchasing bonds. We will focus this discussion on duration and credit risks, and transaction costs.

Reaching for yield is becoming more of an issue, not only because money market rates are near zero, but also because CD, U.S. treasury, municipal, and high-quality corporate bond yields are also at historic lows. As a result, investors who are accustomed to receiving 6-8% yields on their fixed income portfolios are taking potentially outsized risks to maintain their income.

Zero Percent continued from p.3

With cash earning less than 1%, companies are starting to shift from “hunker down” mode to “invest in the future” mode. Second quarter earnings results generally met expectations, but the reason was cost cutting, not revenue growth. Pressure to meet growth targets, combined with a low cost of debt, are spurring merger and acquisition (M&A) activity. Within the last month, brand names such as Disney, Kraft, Dell, and Abbott Labs have announced acquisitions. While these companies discuss the “strategic” imperative of doing deals, capital availability at attractive rates is, in our view, an important factor in these decisions. We believe as long as rates are low, the M&A window will stay open, providing support for potentially higher equity valuations.

Although recent market gains, heightened M&A activity, and improving economic fundamentals are positive, questions linger:

- The Fed has printed $1.2 trillion in the last 12 months. A natural consequence of government support of the economy is currency weakness. While a depreciated dollar helps U.S. based multinationals compete in the world market, it makes investing in U.S. denominated debt less attractive to foreign buyers. At some point, creditor nations (such as China) may not support our debt markets, ultimately driving up interest rates and the cost of funds for companies. If our currency is not strong, capital will ultimately find a higher return elsewhere.

- Rates are being held at 0% because the economy is still weak enough to justify support. The unemployment rate, while a lagging indicator, rose to a 26-year high of 9.8% in September. The timing and magnitude with which the Fed changes its zero percent policy will play an important, albeit psychological, role in how market participants behave. A weak recovery will likely not change the Fed’s stated position of keeping rates low for an extended period. Yet, as the economy recovers, the Fed may have to be as strong handed in its tightening measures as it was in fending off the collapse in order to keep inflation expectations in check. Market gains and investors’ appetite for risk could lose momentum as a result.

Two points are worth summarizing. First, we believe the range of potential economic outcomes is wide, and we are entering a period where there is a wide discrepancy between the “haves” and “have not’s”. We believe companies that are in the “haves” camp will have access to capital and be able to weather a weak recovery or participate in any meaningful recovery. We will continue to place investments in these companies that have strong balance sheets and a low cost of capital. Second, we believe investors should and will “move out on the risk curve” to gain higher returns. However, we recommend doing so within the context of one’s own asset allocation, risk tolerance, and a thorough analysis of the investment’s risk-adjusted return potential.

Duration Risk

Duration is a critical concept because one way investors are reaching for yield is by purchasing bonds with long durations. Duration is the measurement of change in a bond's price to changes in interest rates. As duration increases, a bond's price sensitivity to changes in interest rates increases. As interest rates increase, bonds with longer durations will have a greater decline in value than shorter duration bonds. In a Fed Funds rate environment of zero percent, there is only one direction for interest rates to go, and that is up. Long duration bonds may see substantial declines in value as rates rise.

Credit Risk

Taking on additional credit or default risk is the other primary way investors are reaching for high yield. For a given duration, the market will pay the lowest yields on the most credit-worthy and the highest yields on the least credit-worthy; therefore, by reaching for yield and accepting more credit risk, investors are increasing the likelihood a default will occur in their portfolio. Our economy is still vulnerable, and access to credit markets is still difficult for firms who will run into trouble. Credit defaults are typically a lagging economic indicator, meaning investors will be navigating a potential minefield when reaching for yield well into next year.

Transaction Costs

We view transaction costs as a risk because bid/ask spreads are frequently wide in the bond markets. Bond markets are not as efficient as stock markets, as bonds are sold via an over-the-counter dealer network and not on a public exchange like stocks. Though bonds are priced daily by pricing services, retail purchasers do not have "visibility" into the mark-ups being charged, and thus have little or no bargaining power on price.

Retail investors purchasing bonds from a broker-dealer network typically will pay higher mark-ups, as those mark-ups are collected by the broker as fees. From a pricing perspective, most retail investors working through broker-dealers or their agents and representatives will pay higher transaction costs. This risk is moderated when investors utilize a fiduciary adviser to purchase bonds on their behalf through institutional bond dealers, where price can be negotiated and excessive mark-ups avoided.

The Importance of Real Return

The concept of real return focuses on an investor's ability to earn a rate of return above the rate of inflation. Real returns are what every investor should focus on, because in order to grow purchasing power, we not only have to earn positive returns, but we have to earn returns in excess of inflation over the long-term. Inflation has been very low or even negative recently, which is partially why investors are accepting such low returns on cash and treasuries until now.

Real return is important because it tells us that we do not have to reach for yield. Investors required a 5-7% coupon when inflation was 2.5-3%, which equates to a real return of 2.5-4%. With a real return hurdle of 2.5-4% and inflation now near zero, investors' acceptable fixed income yields have been lowered. Expected real return, not expected nominal return, should be the guide. The "reach for yield" leads investors to take on significant risk, but with a real return focus, investors can still earn the effective income they are accustomed to without having to take outsized risks.

The Fiduciary Group Fixed Income Approach

Our approach to fixed income addresses the risks of both duration and credit as well as transaction costs. We understand the concept of real return and what it means to stay ahead of inflation. Looking out over the next several years, inflation will be a potential threat. Nominal interest rates can only go up from zero. By keeping our durations short, we have positioned our portfolios to benefit from or defend against both inflation and interest rate risk.

We continue to review high-quality opportunities that will earn investors 2.5-4% real return. We avoid trading higher yield for questionable quality, and do not extend durations without seeking compensation for our investors for the higher risk. In the new reality of zero percent on cash, we navigate the risk/return tradeoff in fixed income by focusing on high-quality and short-duration.

Equally important, in this low interest rate environment we have focused even more heavily on negotiating bond prices for clients, as every incremental penny means more yield for our clients. Unlike broker-dealers, our firm is a registered investment adviser, which means that we seek out the best prices for our clients (we work exclusively on their behalf and in their best interests). Because we do not receive any portion of the mark-ups, we do not have a conflict of interest with our clients. We utilize several institutional bond dealers to try to find the best pricing we can for our clients, and we try to minimize dealer markups through negotiation. As we do not add any mark-ups or charges to the price, the "fruits" of our negotiated buying process are fully passed on to our clients.

SO WHAT'S THE BIG DEAL ABOUT BEING A FIDUCIARY?

Julia L. Butler, *J.D., MBA*
Chief Operating & Compliance Officer

Among the many battles that will be waged in Washington, D.C. this fall is the "fiduciary" debate. Part of the Administration's proposal for reform of the financial services industry would establish a fiduciary duty for broker-dealers, similar to that which has been in existence for registered investment advisers for 70 years. The broker-dealer lobby is weighing in heavily, as the outcome would likely change the way that brokers and representatives sell investment products and service clients.

A lot of people don't understand the difference between "broker dealers" and "registered investment advisors." The difference is simple: registered investment advisers act as "fiduciaries"; broker-dealers do not. An investment adviser's relationship with a client is by law a fiduciary relationship; a broker-dealer's relationship with a client is not legally a fiduciary relationship. A fiduciary is required to put the client's interests first and act with undivided loyalty on behalf of the client.

You may be thinking: "So what?"

First, some definitions.

What's a Broker-Dealer?

A "broker-dealer" is any individual or firm in the business of buying and selling securities (such as stocks and bonds) for itself and others. When acting as a broker, a broker/dealer executes orders on behalf of his/her client. When acting as a dealer, a broker/dealer executes trades for his/her firm's own account. Securities bought for the firm's own account may then be sold to clients, or become a part of the firm's holdings. Those who work for or under the supervision of brokers are commonly called "financial advisers," "financial consultants," "financial representatives," "registered representatives," or "brokers."

Broker-dealers are paid to buy or sell stocks, bonds, and other financial products. Typically, broker-dealers are paid commissions, revenue-shares from mutual fund expenses, mark-ups (or margins), "wrap fees," or other revenue-sharing arrangements. For this reason, broker-dealers most often stand to gain financially from the recommendations they make, and usually are paid by the product sellers or as a result of the purchase/sale transaction.

What's an Investment Adviser?

An "investment adviser" is a person who, for compensation, engages in the business of advising others as to the value of securities or as to the advisability of investing in, purchasing, or selling securities. Investment advisers are paid for their advice, and typically do not have a financial interest in the buy/sell recommendations they make.

The Fiduciary Group is a registered investment adviser.

A Higher Bar

Here are three examples that show the differences between the current "suitability" standard for brokers and the higher "fiduciary" standard for registered investment advisers.

	Investments	Disclosure	Testimonials
Registered Investment Advisers	Fiduciaries must offer investments in clients' best interests. Advisers should disclose fees of one fund over another.	Advisers should provide information to the client about their fees and backgrounds, including disciplinary actions.	Advisers are generally prohibited from using testimonials from clients, celebrities or sports figures in their advertising.
Brokers	Brokers must only recommend "suitable" funds. They generally aren't required to tell you if they stand to gain personally or financially. They are not required to act in clients' best interests.	Brokers generally aren't required to proactively disclose past disciplinary actions to cleints.	Brokers aren't subject to prohibitions on testimonials.

Source: *Fiduciary Duty Hits the Street—Sort Of*, Wall Street Journal, August 31, 2009

We are paid a fee by our clients to advise or manage their investments. We only receive compensation from our clients, not from product sales or transactions. We do not receive commissions or any financial incentives for recommendations or investments made on behalf of clients, and thus our interests are aligned with, not conflicting with, those of our clients.

Why Reform of the Broker-Dealer's Duty May be Important

To the investing public, an investment adviser and a broker-dealer who provides advice about what to buy or sell appear to be doing the same thing. Investors normally trust the advice they're given—whether from a broker or investment adviser—and act on the advice. The fact that broker-dealers and investment advisers appear to the retail customer identical in all respects is precisely why new regulations have been proposed. "Retail customers repose the same degree of trust in their brokers as they do in investment advisers, but the legal responsibilities of the [two] may not be the same." (Department of Treasury White Paper, "Financial Regulatory Reform, A New Foundation: Rebuilding Financial Supervision and Regulation.")

Investment advisers act under a higher standard of care than brokers who dispense advice. A broker-dealer need only determine that an investment is "suitable" for a client (meaning that the investment is not inappropriate). The investment adviser's fiduciary duty, on the other hand, requires the adviser to consider a number of factors in addition to suitability, such as the fees involved, whether the investments are adequately diversified, whether there are conflicts of interest, and whether the investments are consistent with the terms of a trust agreement or other directives.

Moreover, the fiduciary duty requires the investment adviser to put the clients' best interests first and to exercise a duty of loyalty to the client. Broker-dealers do not have such a duty. Therefore, broker-dealers may put their own or their company's financial interests first and are not required to disclose conflicts of interest (such as personal profit motives for a recommendation).

Buyer Beware

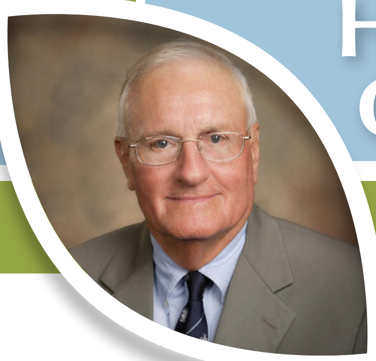
Until reforms are passed that hold broker-dealers who render investment advice to the same standards as registered investment advisers and prohibit sales practices that are contrary to investors' interests, the responsibility for making informed choices rests with the investor. In deciding to whom to delegate investment management responsibility for their savings—a broker-dealer or an investment adviser—the question an individual investor may ask is: "do I want someone recommending investments who is acting solely in my best interests and with undivided loyalty, or someone who stands to gain financially from a recommendation and does not have to tell me about the potential inherent conflict of interest?" It all comes down to knowing who to trust and why.

Fiduciary Duty and 401(k) Plans

The difference between broker-dealers and investment advisers is important not only to individual investors, but to 401(k) investors as well. Plan sponsors (the employers who sponsor 401(k) plans) by law are fiduciaries, and thus are required to make decisions based on the best interests of participants. However, most of the "de-facto" advisers to 401(k) plans are individuals who work under the supervision of insurance-based benefits brokers or broker-dealers (financial advisers, financial consultants, financial representatives, registered representatives, and/or brokers). These are salespeople who give incidental advice about plan design and fund selections. They are not held to the fiduciary standard (and a quick review of most plan providers' contracts explicitly denies any fiduciary responsibility, stating that all investment decisions are entirely up to the plan sponsor).

So here's the problem. Plan sponsors, who are fiduciaries, often unknowingly come to rely on the investment recommendations of a broker-dealer, benefits broker, or plan provider, who are non-fiduciaries. Unlike the plan sponsor, the non-fiduciary broker or representative is not required to act with undivided loyalty in the participants' best interests, and is free to recommend funds and propose contractual terms that are in his/her or the broker's company's own financial interests, to the detriment of plan participants.

The question which plan sponsors need to ask is: "Am I meeting my fiduciary duty if I rely on the "incidental" advice of a non-fiduciary?" One simple way to avoid this risk is to engage the services of a registered investment adviser, who by law has the same fiduciary duty as the plan sponsor and who is motivated by the same thing: to provide meaningful benefits in the best interests of the participants, at the lowest cost and in the most transparent way.



HIGHER TAXES ON THE HORIZON

***C. Lee Butler**, LLB*
Chairman

Like it or not, taxes are a cost of doing business in—and a cost of living in—the United States. Much like a mortgage, insurance premiums, utilities, and health care, taxes are a line item expense that needs to be built into every taxpayer's budget. From the look of things, that line item is about to go up, perhaps way up.

Nothing is Certain But Death and Taxes

The Bush tax cuts are set to expire by January 1, 2011, paving the way for increases in both income taxes and capital gains taxes. The current health care initiatives and proposed cap-and-trade scheme, not to mention the stimulus programs and skyrocketing federal deficit, all point toward likely additional taxes.

It's not just the federal taxes that are on their way up. Massive deficits at the state and municipal levels are generating numerous efforts to levy additional fees and taxes on consumers and businesses. A Wall Street Journal article reported recently that states' tax revenue fell by about 12% in the first quarter of 2009 due to falling business profits and lower consumer spending, leading states and towns across the nation to step up efforts to find new and creative ways to raise money. One municipality in Georgia sent a business an "occupation tax" bill for $14 million for 2006 to 2008, up from $85,000 in 2005. San Francisco recently imposed a $0.20 "fee" on cigarettes sold within city limits. And these are only a few of the examples.

A thought provoking article by Arthur Laffer, co-author of "The End of Prosperity: How Higher Taxes Will Doom the Economy—If We Let It Happen," makes the case that a trade tariff imposed in 1930 was the catalyst of the Great Depression, and sky rocketing taxes thereafter caused the economy's relapse in 1937. To summarize a few of the startling tax increases beginning in 1932 through 1936, the highest personal tax rate climbed to 79% from 25%; the highest inheritance tax rate was raised to 70% from 20%; the corporate tax rate was raised to 15% with a surtax of 27% on undistributed profits; and state and local taxes grew about 70% as a percentage of GDP. Laffer warned that "U.S. federal and state tax policies are on an economic crash trajectory today just as they were in the 1930s." (See Taxes, Depression, and Our Current Troubles, WSJ September 22, 2009.)

Perhaps those responsible for legislating tax policy will take the lessons offered in the 1930s. Meanwhile, what implications might we note for investors? Though as advisers we are always cognizant of tax implications, our investment process is driven first by the merits of the investment and only secondarily by its effect on taxes. This is particularly true when it comes to managing the risk of concentrated positions in a portfolio.

Where investors have concentrated positions that need to be reduced, it makes sense to take advantage of the current capital gains tax rates this year and next, which likely will increase after 2010. Investors also should review their portfolios prior to year end to see if it makes sense to sell securities with losses to offset any gains incurred during the year.

Last but not least, all taxpayers need to revisit their budgets to account for likely increases in taxes, which means adapting to lower net revenue and higher costs. Unlike other line items on a budget, there's less flexibility in shopping for more competitive rates or eliminating the expense altogether. Higher taxes are simply a risk that needs to be managed like all others in this highly volatile market environment. Taxes are a permanent part of the financial landscape, and good planning can and should be an important economic undertaking by all citizens.

NOTE FROM THE EDITOR:

We hope you have enjoyed this edition of The Fiduciary Group newsletter. We are interested to hear your thoughts and suggestions. Please feel free to send me your feedback at julia@tfginvest.com. If you have family or friends who you think might enjoy our newsletter, please e-mail me their name and address. Thanks, and we look forward to enhancing our service to you with each edition.
-Julia L. Butler, Editor
Chief Operating & Compliance Officer

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