QUARTERLY NEWSLETTER

March 25, 2011

Market Commentary:

The equity markets of developed countries are decidedly up for the year, but continue to be a land of high volatility.

The day after the March 11 earthquake in Japan, the markets there saw an immediate drop of over 11% on a currency adjusted basis. An investor who liquidated their Japanese holdings would have permanently locked in losses and missed the subsequent 10% rally driven by a record $11 billion inflow from foreign investors. Unfortunately, many investors did just that.

The Japanese situation also spilled over to global equity markets causing them to be temporarily in the red for the year. Market performance during the last two weeks of March has carried the year back into positive territory.

The Eurozone situation also would seem to be worsening with fiscal troubles arising in Portugal. Thus far, markets have shrugged off this news. This is the likely result of the Portuguese issue not being news at all. Market participants immediately price in all new information and Portugal's financial issues were simply not new news.

The recent events in Japan and Portugal issues are teachable moments. The former is an example of unpredictable events that stir markets. The latter is an example of market efficiency immediately pricing in all available news. Attempting to time either would have been futile, but more on that later.

Emerging Markets, though providing stellar net performance over the past decade, have been the relative underperformers this past quarter. This should not deter us from making a commitment to these markets, however. Though emerging markets will continue to be highly volatile in the future as in the past, as a whole they appear to be currently trading at fair valuations. In comparison, markets in developed countries appear to be trading at slight premiums.

Overall, we have experienced exceptional returns over the past year. These returns are in line with the historical pattern of markets having the greatest growth just after the greatest declines. Investors who pulled out of the market during turbulent times permanently locked in their losses. Investors

choosing not to make additional investments during these times missed once in a lifetime gains on that new money. Overall, both groups of investors would be well behind those that assumed a more disciplined approach to managing their portfolios. This has simply always been the case with investing and will continue to be the case going forward.

At the very least, experience with recent events in Japan and Portugal as well as the rebound since the mortgage meltdown are teachable moments that have actually replayed themselves over and over again throughout the history of markets. That is, markets are unpredictable and at times become mispriced by the crowd.

We should not expect the recent stellar market performance to continue going forward, but all is not lost. Equity markets to appear to be fully priced, but not over priced. In the long run equities will no doubt outperform bond returns. This long term outperformance comes at a price of short term volatility, however, which makes it critical for you to understand your time horizon, investment vehicles, and ability to maintain a disciplined approach during both up and down markets.

Commentary on Risk:

When it comes to investing the two major risks are *inflation* and *volatility*. As an investor, you should be aware of both risks and plan accordingly.

Volatility is easy to understand. If you will need funds to make a necessary purchase in the near term you should not invest in a highly volatile asset that may or may not be able to provide you with funds when they are required.

Inflation is more insidious. Let's say an investor earns a steady "risk free" rate return of 3.5%. This may sound pretty good to investors currently earning less than 1% in their money market accounts, but in the long run this investor's real return will be *much* less than 3.5% due to inflation. Most likely this investor will realize a net real return of .5% at best. This doesn't leave our investor with a lot of cushion for potential inflationary periods. Not exactly as "risk free" as it first sounds.

Similarly, a long term investor that thinks cash is safer than stocks will be even worse off in the future since a dollar today will be worth *much* less down the road. In the long run, it is important to realize cash is actually one of the riskiest investments to own.

So how do we manage these two major risks?

First off we should realize the solutions are competing. That is:

	Bonds	**Stocks**
Strength	Low volatility	Hold up to inflation
Weakness	Crushed by inflation	High volatility

An understanding these competing solutions is the key to understanding the importance of properly targeting your portfolio's allocation. A long-term investor over-allocated to bonds will likely be crushed by inflation, while a short-term investor over-allocated in stocks will face a good chance of getting crushed by volatility.

So who is a long term investor? I've found that many people believe they are short term investors if they are near retirement. They tell me that once they retire they will allocate 100% of their portfolio to bonds and live off the interest. The fact is, though, a person just entering retirement will very likely live for another 30 years. To me, a person with a 30 year time horizon hardly appears to be a short term investor!! Recent retirees that move 100% to bonds are simply taking on *way* more risk than they realize.

As it turns out, we are all both short and long term investors. We only differ in the extent, thus we must each have unique portfolio allocation targets which take into account both our near and long term requirements.

Why not simply focus on trying to maximize returns for each period? As we have seen with Japan, Portugal, and the recent market rally this is nearly impossible to do. In fact, only 10% of money managers are successful in timing the market in the long run, which is the same amount we would anticipate through chance alone.

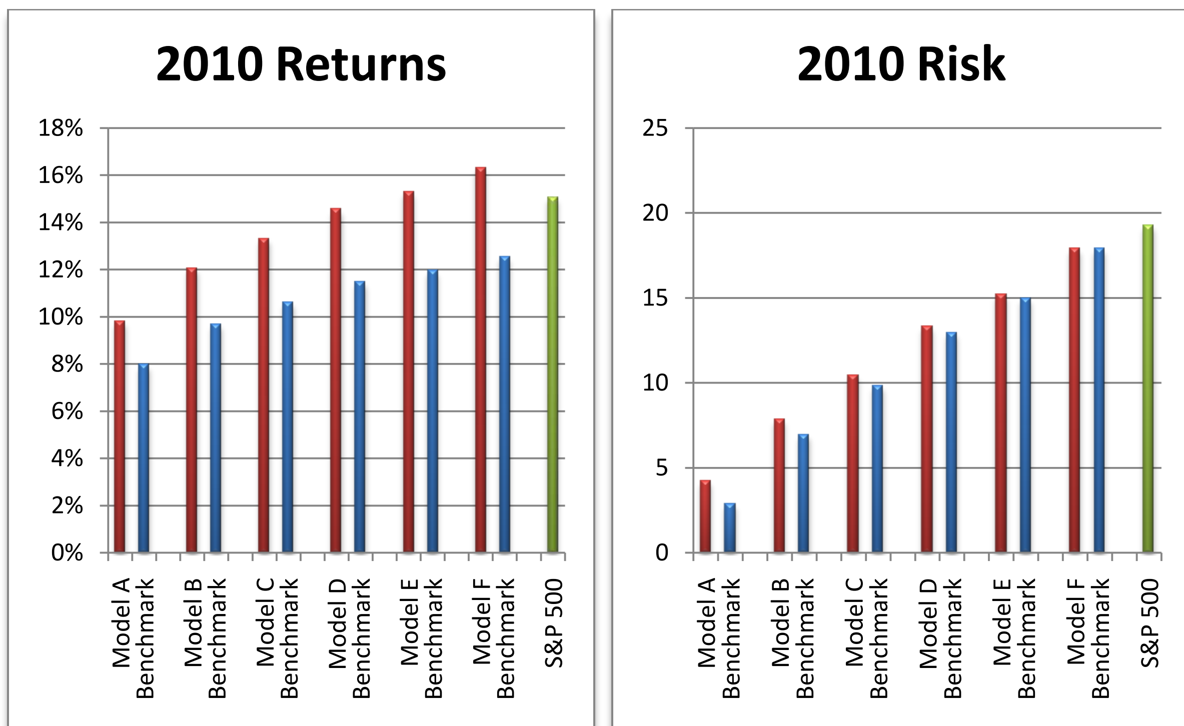
Given the low probability of choosing the manager that just may happen to outperform the market over the long run, I believe investors should attempt to control what they can instead of attempting to discover an outlier whose performance resembles that of mere chance.

What we can control is what we can identify and measure with a certain level of confidence including: risks, fundamentals, correlations, expenses, taxes, and history.

What have been the results of this conservative approach?

The result of this approach has been to beat over 90% of market participants on a real and risk adjusted basis over the long term. Though real and proven, this strategy doesn't sell advertising or make brokers rich. It simply isn't sexy, but investing shouldn't be sexy, it should be effective.

Below are the results from model portfolios and vehicles utilized during 2010. The RED bars reflect the returns and risk associated with my recommendations for the year, while the BLUE bar reflects those of the global marketplace as a whole. Each bar reflects a model portfolio consisting of a bond/stock allocation, with Model A being the least volatile and Model F the most.



Global marketplace results are reflected by the BLUE bars and represent the performance of ALL money managers around the globe. Mathematically, this means that half of the money managers performed better and half worse than the BLUE bar results.

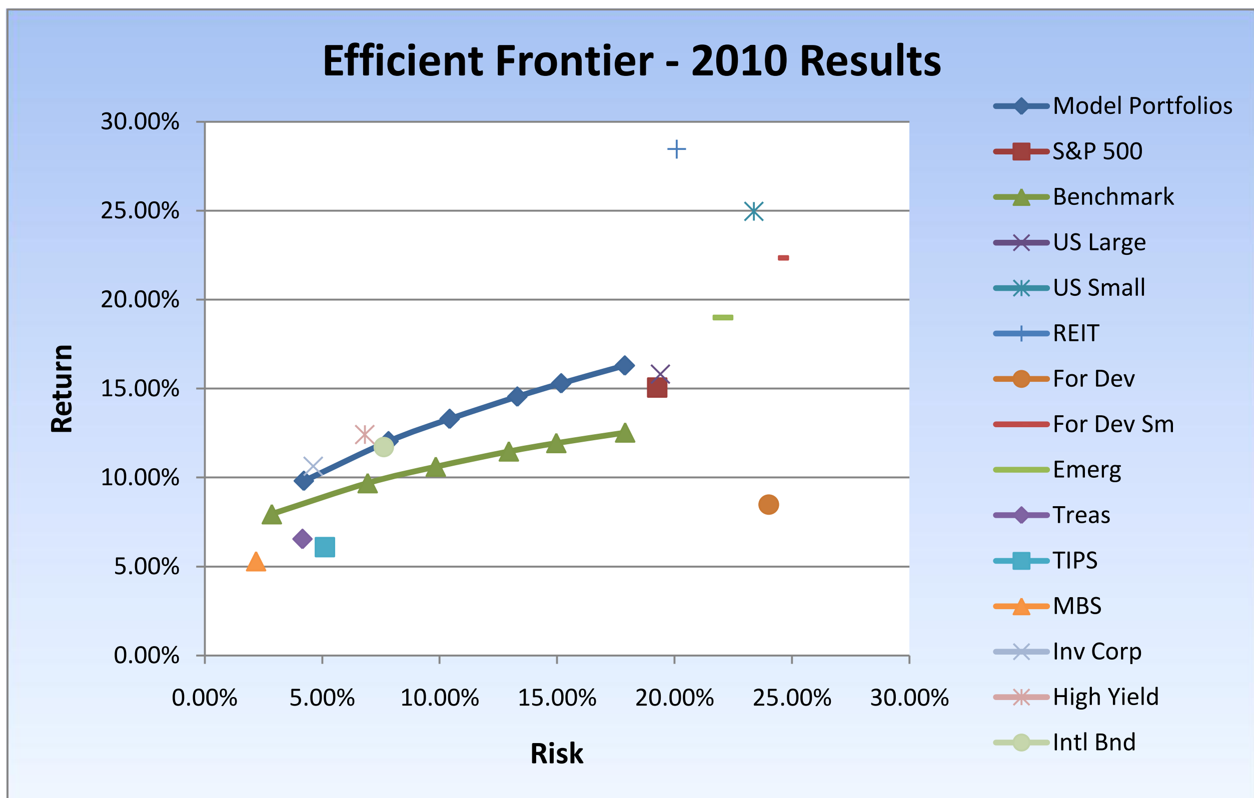
When comparing performance results it is also important to look at the risk taken. Why? Let's say you have two people that want to borrow money from you. One person has a steady job and good credit history. The other: not so much. In the end you know you will receive your money plus interest

from the first person, but you may only have a 50:50 chance of receiving money from the second. This means that if you were to charge each person 10% interest, the first person is a better investment since the risk is less.

Portfolio investments can be seen the same way: for a given level of return it is much more desirable to have a lower risk. You will notice the models not only outperformed benchmarks, but did so while taking on little to no additional risk.

According to Morningstar criteria, this risk adjusted performance was better than that of 75% of asset managers during the same time frame. Though it may not be the case in years when US Large Cap stocks outperform, I do believe it will be most years given historically consistent relationships. (see additional information regarding model performance and disclosures on the last page).

Understanding risk adjusted returns and properly allocating a portfolio according to your risk tolerance and preferences is critical to developing a sound investment policy. The next step is to understand you can lower risk AND receive higher returns by combining multiple assets than any one asset can provide on its own. I will this cover the topic in next quarter's newsletter, but until then I offer the following for all you data buffs:

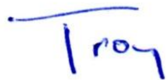


As a primer to the next newsletter, note the dispersion of returns and risk associated with each asset class. As is typical, bonds reside toward the lower left while equities reside to the right. It is also interesting to note that small cap foreign developed countries performed much better during 2010 than their large cap counterparts, but both had roughly the same level of volatility.

As is anticipated over the long term, small cap equities both in the U.S. and abroad were more volatile and provided more return than their large cap counterparts. You should also know that small cap growth companies are not reflected in this chart since I do not model them. Small Cap Growth companies simply carry less risk adjusted returns than I can prudently recommend.

Please feel free to contact me if you have any questions regarding this letter or anything else that may be on your mind. I would also be quite interested in receiving topics that you would like to hear about in the future.

Remember: *Diversify utilizing a sound investment strategy and stay on target. You will be rewarded.*



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2010 Model Performance Discussion and Disclosure

Equity markets experienced extraordinarily strong performance during 2010, with small capitalization stocks in the United States leading the way. Commencement Financial Planning LLC (the "Advisor") believes that small capitalization stocks will outperform large capitalization stocks over the long term, thus tends to overweight them in its model portfolios when compared to the market as a whole. If large capitalization stocks had performed better during 2010 than small capitalization stocks the models would not have performed as well compared to their benchmarks.

The Advisor's model investment portfolios for the period also utilized below investment grade bonds as part of the bond sub-allocations. Such bonds tend to perform better during periods when equities perform well. If these bonds had not outperformed those of investment grade, the model portfolios would not have performed as well when compared to the benchmark portfolios. The Advisor believes below investment grade bonds are more attractive when risk premium yields equal or exceed the historic average of 4%, and will adjust its investment model portfolios accordingly.

More information regarding the Advisor's investment strategies can be found within its current Form ADV Part 2.

The stated returns include internal fund fees, but do not include fees charged by the Advisor, potential brokerage fees, or potential taxes. See the Advisor's most recent Form ADV Part 2 for its fee schedule. Brokerage fees vary depending on the broker utilized. Taxes could result from income and/or capital gains distributed by the funds during the period as well as from the realization of capital gains due to fund share transactions as a result of portfolio rebalancing.

Performance results assume no contributions or withdrawals are made during the period, all fund distributions are reinvested, and all investment portfolio models/benchmarks are rebalanced to targets semi-annually.

Benchmark portfolios consist of the Vanguard Total World Index ETF (VT) which is designed to track the FTSE All-World Index; and the Vanguard Total Bond Market ETF (BND) which is designed to track the Barclays Capital U.S. Aggregate Float Adjusted Bond Index. The target allocation of stocks and bonds for each benchmark reflect the stock and bonds allocation targets of each respective investment portfolio model. The Advisor has adopted this method to provide what it believes to be the best measurement tool.

The S&P 500 measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX, and NASDAQ. The weightings make each company's influence on the Index performance directly proportional to that company's market value.

The Standard Deviation measured the volatility of returns. The related Sharpe Ratio is used to characterize how well the return of an asset compensates the investor for the risk taken. For a given level of expected return, the higher the Sharpe ratio number the better. Sharpe ratios can be found below.

Investing provides the potential for both profit and loss. Past performance is not indicative of future results. Investment model portfolio performance provides hypothetical returns, does not represent actual trading, and has inherent limitations. Actual performance would have differed according to investment inflows or outflows; the timing of rebalancing; the taxability of income and gains; unique expense levels; and decisions particular to each investor.

The Advisor did not change the model portfolios or investment vehicles during the period. From time-to-time the Advisor will make modifications to the investment model portfolios and/or investment vehicles, however.