March 31st 2009

To all RFG Clients and Friends:

Markets stunk again this quarter, at least through the first week of March. Even with the sitting of a new President, promising a new way, dismal economic news and doubt about the effectiveness of these "new ways" dominated investor behavior until March. Losses in equity markets continued in January and accelerated in February, creating the worst February since 1933. March seemed to confirm that the end was nigh in its first week, then dramatically turned around to produce the best four week return in the markets since, when else, 1933!

I am in the odd position now of describing to you the changes we have made to decrease our portfolio's (from Capital Preservation to Moderate, not Opportunity or All Equity) sensitivity to stock market volatility, while at the same time to say that I believe that the November to March lows marked the bottom of the recent bear market cycle. This is a contradiction because if I am right about what I believed about the market, then logically I would try to increase our sensitivity to the market's volatility. How can I believe the positive and manage the portfolio models to deal with the negative or neutral? Simply this, I could be wrong on my thoughts on the market, and if wrong portfolio losses could trend into negative areas I hope never to have to report to you. As of the end of February our flagship Moderate model was down 28% over the preceding 12 months, compared to the market's 43% down. While glad that we had spared you some of the market's loss it did seem to be quite enough. Additionally, we had seen areas of the investment spectrum which represented the ability to more reliably accrue returns presently and over time, which also presented less downside risk than the market presented at the end of February and still presents today. We chose in February and in the beginning of March to allocate to those sectors.

So why would we, after these market declines, then become more diverse and less directly equity exposed in our models? The short answer is twofold; to ensure that we and you retain the emotional energy necessary to keep invested as uncertainty continues, and the fact that the more you lose, the amount of gain you need to recover increases substantially. Recovering from a 28% loss requires a 39% return. From a 43% loss you need a 75% return. Over the 5 years I had run RFG through last March 31st we had been able to report total returns of 78.2%, (12.2% annualized). Extending that now through our 6th year the total return we can report is now 22.8% (3.5% annualized). We are very focused on avoiding a long term loss over my time working for you, and on doing everything we can to help you share in the gains that will come over the next couple of years.

The sensitivity of the portfolios will likely be increased over time as we feel more confident that the downside estimates for the markets become more unlikely. This will be purely a judgment call. The fact that these kinds of adjustments are judgment calls, more art than science, is why we keep our models within approximately 10% or so of their targeted equity exposure. The following paragraph illustrates why in spite of all the research we conduct and data we utilize, we can only research the past and data is also a record of the past.

Economic news and forecasts for "realistic" and "possible" values for the markets reached downside levels during this last quarter which would have been considered not just ridiculous but even impossible just a year or two ago, (estimates of down another 30% and 40% from present levels to depression like losses, were and still are on the table). But let's take a look at the Dow

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Jones Industrial Average (DJIA) in the depression. From mid 1929 **the earning of the Dow stocks increased** from approximately $14 per share to almost $20 in mid 1930, a 43% increase in earnings. During that same period **the value of the DJIA dropped** from more than 350 to almost 225, a decline of nearly 36%! But it gets even more cockeyed from there! From mid 1932 to mid 1933 DJIA **earnings continued to fall from just $5 a share to less than $0** (where it stayed for almost 6 months)! The **DJIA itself,…it experienced its best bull run in history, up 154% in those 12 months**! Of course that "Bull" might be better called a calf as it returned the Dow to only 100. What this means is that the bottom will be formed when it is well behind us by data telling us of the past, we have to work at the present for your future and so will use our best judgment in doing so. **What it also means is that the dollars you can invest at the worst possible times in economic history are the most important ones. Save Now! Invest Now! Spend Later!**

What do we expect to happen next? We expect to continue to be very uncomfortable!

However, in contrast to the last few months during which we were wondering with great discomfort as to when this bear would end, I believe that we may well be as uncomfortable wondering if we shouldn't be being more aggressive as markets move upward. From fear of loss to fear of not gaining enough! However as Paul reminded me, even if we don't keep up with our benchmarks as well as we normally would like to, if we have entered a new Bull market we are all still better off! If the downside risks become reality I think we are very well positioned to withstand their impact.

Please let us know your thoughts about our thoughts and activities on your behalf. Please let us know when things change for you in your financial life or concern you, we want to know.

We hope to be announcing a new "mini-financial planning" web site in the next few weeks. One that you can use yourself, or invite friends to and use at no charge. It looks pretty neat so far, so we are excited to get the final touches on it and invite you over for a look around!

Sincerely,

Benjamin G. Baldwin III CFP® ChFC
President