September 2006

What a quarter it has been! We had a great summer and are now full swing into soccer season. I am head coach for Hannah's and Maddie's teams, I get to watch Lara's when I'm not coaching the others. All are doing well and having fun. During the course of the late summer, I was named the first Director of Pro Bono Activities for the Illinois Chapter of the Financial Planning Association (FPA). I was able to coordinate instructors and provide a curriculum for FPA volunteers to teach and provide financial plans for new and prospective homeowners for the Fox Valley Habitat for Humanity. I was also named the first Chairman of the Investment Management Special Interest Group for the Society of Financial Services Professionals, (FSP). This group supports financial services professionals in the development of their investment and business management techniques.

As I came to work Monday morning, they announced on the news that this has been the best 3rd quarter for "the market" in nine years! The S&P 500 Index (with dividends) was up 5.67%. For the last 12 months, the same index was up 10.8% with more than 5% of that return in August and September alone.

Things are not always as they seem. In this case, the S&P 500 has been rising, while the number of the stocks in it that have been rising, have fallen. This has been going on for about four months now. When the number of rising stocks drops at the same time the index rises it is called a negative divergence. These typically last from six to nine months before the index follows the experience of the majority of its stocks. It simply means that sometimes "the index" is not a reliable gauge for "the market." The most memorable example of a negative divergence was the tech boom that ended in March of 2000. In 1998 and 1999 the S&P 500 rose more than 50%, while the number of stocks in the S&P 500 Index that were going up decreased until just a few stocks were responsible for the long upward trend. This tech boom might be called "the mother of all divergences," due to how long, (two full years!) and how extreme the divergence became.

What all this technical talk means is, this is not a market I want to try to keep up with. I expect that remaining careful and courageous, allowing the managers we have to continue buying or owning the best values they can find in the markets, is the best course to continue to grow your portfolios.

Why all the technical discussion this quarter? Because while our portfolios went up, they didn't meet our benchmarks. They ranged from +1.58% to +2.38%. This is the first quarter since I have owned RFG, that we have not met our benchmarks. Not only that, but from our Mid-Point Portfolio on up (in risk) we lagged enough (from 1.2% to 3.13% behind for the quarter) that most of the portfolios now are measuring behind their benchmarks for the last 12 months. For the longer time periods, all are still ahead of their benchmarks. I do like our managers (the funds) and the way they are working together for you. We continue to keep an eye on everything we believe might help.

We will continue to employ all of our best efforts to assist you in meeting your financial goals. **Please contact us whenever a financial question arises. We absolutely want to be here when you need us**.

Sincerely,

Benjamin G. Baldwin III CFP®, ChFC
President