



Mid-Quarter Newsletter

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BEHAVIORAL INVESTMENT COUNSELING

A research study conducted by the DALBAR Institute revealed a huge disparity between investment and investor returns:

AVERAGE EQUITY FUND
10.7% return over 20 years

AVERAGE FUND INVESTOR
3.7% return over 20 years

If all an investor had to do was buy and hold the fund for 20 years, why did their real return underperform their investments by 70%?

Bad investor behavior.

At LGA, we believe our value is to be a trusted advisor who provides the expertise and education to help our Clients make intelligent decisions while avoiding costly mistakes. An insurance policy to ensure that real returns equal investment returns.

We are proud to say that 100% of our Clients have stayed on track with their plans and we are thrilled to receive referrals from those who recognize they need help, now.

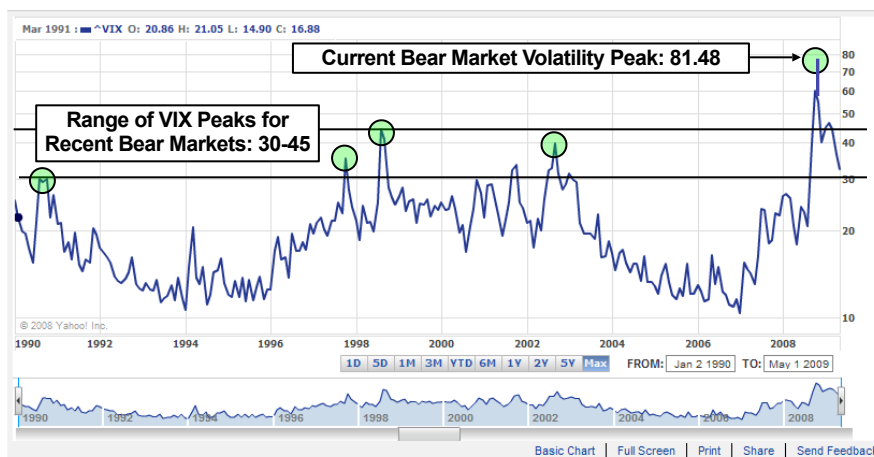
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Q2 / 2009 Market Update & Commentary

“They Don’t Ring a Bell at the Bottom”

In early March, investment markets throughout the world hit an extremely panicked point, as asset values plummeted rapidly and volatility went through the roof. In fact, the CBOE volatility index hit peaks during November 2008 and March 2009, that far surpassed the volatility peaks of previous bear markets in the US (see Chart 1). These recent volatility peaks created extremely negative press, widespread panic and fear, and a departure from time-tested investment strategies and discipline as has not been witnessed in generations.

Chart 1: Historical Volatility Peaks (1990 – 2009)



CBOE VOLATILITY INDEX (Chicago Options: ⁴/VIX)

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Consequently, many investors were caught off guard and sitting heavily in cash and Treasuries when the market started to rebound during March. These investors were further confounded as the unexpected rally continued in Q2/2009, catapulting the S&P 500 30% higher than the March lows. Despite many pundits who stress the ills of our economy, the values of our CEOs, and the overreach of our politicians, this rally has continued upwards against a wall of worry.

Additionally, what these investors have failed to realize is that markets don’t turn to the upside when things look better, but rather when they look less bad than before. So, while we continue to see deterioration in GDP and unemployment, the pace of decline is slowing, and consequently the market is responding favorably.

WE ARE MORE THAN OUR INVESTMENTS

It is incredibly important to build a financial foundation that helps to achieve both current and future objectives in one's life. It can be exciting when investments are rising, helping to reach those goals more rapidly than expected. It can also be nerve racking when temporary market declines cause cutbacks to current expenditures or revisions to future plans.

However, it is important to put short-term market fluctuations into perspective relative to long-term trends. Additionally, it is helpful to not obsess about particular wealth levels, or to allow one's self worth to be defined by money alone.

"We are more than our investments. We are more than the year-to-year changes in our net worth. We are what we do for charity. We are how we treat our family and friends. Losing and making money are not moral issues so long as you are being honest.

You may have more or less money today than you had two years ago. But you are just as good or bad a person as you were then (and hopefully you have done things to become an even better person along the way).

It is a myth that money determines who you are, and if you have gotten over that myth by now, then each year can be a very good year for you."

- Ben Stein, New York Times

So where do we go from here? Without going into a major economic and investment market thesis, we believe that there are three most likely scenarios, and we are preparing the portfolios accordingly.

The most likely outcome is a slow growth recovery over the next 3-5 years as we work off excesses from the previous bull market, and repay massive government bailouts and social programs. In this scenario, we would maintain a core equity position in the US while searching out more appealing opportunities in overseas markets and in other asset classes that don't have such a headwind to growth.

A second scenario is the potential for hyperinflation in the US as the government continues to print money and the world's investors demand higher interest rates for our debt. Under this scenario, we would see a massive V-shaped recovery in hard assets such as commodities and real estate, while the US dollar depreciates and is potentially replaced as the world currency.

Finally, we could chug along for a few years before hitting a second and even more massive downward wave in our economy, with investment markets retesting or even breaching the recent March lows (similar to the final leg down during the Great Depression years of 1940 – 1942).

Under this scenario, we would see a final flush out of overpriced assets such as homes and stocks, massive deflation, and extremely high levels of unemployment due to failed, big government policies. In this scenario, the best investments would be safe havens such as cash, gold, and Treasuries.

Regardless of outcome, we will continue to see a massive amount of volatility. Despite the pullback from recent peaks, we still remain at historically high volatility as illustrated in Chart 1. Consequently, continued investor discipline and a sophisticated investment strategy will be extremely important in navigating the complexities that are sure to develop in the years ahead.



Real Returns vs. Benchmarks

While many investors often analyze their investments in comparison to specific market benchmarks, studies have shown that the majority of long-term portfolio underperformance occurs due to emotionally selling at market lows and buying at market highs rather than poor asset selection.

Investors eventually return to their strategies when they feel that the “coast is clear” and that things are economically better, but by this time the markets have rebounded in anticipation of the eventual economic turn-around.

We offer congratulations to our clients for sticking to their investment plans and not falling into the emotional trap of selling into bear market lows. Additionally, our investment models have shown significant outperformance as compared to relative index benchmarks since the March lows.

While we cannot always rely on this to occur in any particular short-term period, this powerful combination of client and advisor discipline will result in a superior “real” investment returns over the long term.

Once again, congratulations on your continued commitment, as it is easy to stick with something during good times, but your strength and perseverance has been highlighted during the recent market turmoil.

As always, we encourage you to pursue life’s dreams!

Warm Regards,

Andy Seth & Raphael Martorello
LotusGroup Advisors Management Team

QUESTIONS?

As always, we are available to discuss any questions you may have regarding our progress towards your financial and investment objectives.

REFERRALS?

We appreciate your referrals as they are the lifeline to our business. Please let your family, friends and colleagues know about our wealth management services.

Contact Your Advisor or Our Main Office

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Email info@lgadvisors.com