INVESTMENT MANAGEMENT & CONSULTING GROUP

VIEWPOINTS

2ND QUARTER 2009 — *ADVISORY NEWSLETTER*

MARKET COMMENTARY — FREDRIC W. WILLIAMS

Brave New Post Stimulus World…

With most of the last nine months being triage-centric as we watched to make sure the patient was actually going to survive, attention has now turned to the I.C.U. and the recovery (eventually) from last year's economic injuries. Although the *Alphabet Soup* stimulus paddles were used many times earlier this year to resuscitate the carcass on the gurney, the impact of the dollars pledged is just now going to start to be felt in the broader economy. From TALF to CAP and PPIP, the funds committed as part of the administration's various "revival" programs are beginning to move from press conference concepts to actual program deliverables, with the hope that the wheels of our economy will start rolling forward rather than the incessant retracement we've experienced for the last 18 months. As noted in this space last quarter, we're confident that the patient will in fact pull through, so our focus recently has been on post-recovery economic conditions as that landscape will impact investment decisions for the foreseeable future.

This is not to suggest that the elimination of economic risk is a *fait accompli*, nor do we believe that the recovery will be the straight line that the markets have seemed to suggest with their performance during the 2nd quarter of this year. As discussed below, we take no umbrage with the direction of the move, but just its durational magnitude since we envision a haltingly slow recovery given the global deleveraging currently underway.

But since our charge is to allocate assets in advance to benefit from *future* conditions, we feel compelled to try to look over the horizon and attempt to decipher the macro trends that we will want expressed in our clients' portfolios over the near and longer term. Our goal now is to identify value that the "consensus" will come to recognize down the road:

> "*We believe the aim in common stock investing is to buy good quality companies at attractive prices. Designer suits are best purchased from the discount rack when they are out of style, not from the display windows on Fifth Avenue.*"
>
> *R. Tortoriello, S&P 07/01/09*

We feel that two of the most significant themes to focus on as we emerge from the fog of this financial meltdown will be the pace of the recovery and the resetting of investment rate of return expectations going forward. Both of these issues will be significantly influenced by the

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unwinding of leverage utilization in the economy, along with the resulting reduction in the banking and finance industries as borrowing to magnify returns is curtailed as part of a global regulatory response.

By definition the process of deleveraging will be a drag on economic growth as debt reduction becomes the *modus operandi* for both individuals and businesses. On the individual level this siphons off to funds to pay bills (credit cards, home equity loans, etc.) that might have otherwise been directed to consumer purchases of goods and services. From the business perspective this will manifest itself in restrained hiring and delayed capital investment (buying new equipment, computers, etc.). Both of these dynamics mean a less robust circulation of money in the economy, thereby hampering growth and contributing to a more muted recovery. No longer will the use of credit be easy to come by – economic expansion will need to be organic, and not juiced with the steroids of borrowed capital.

We've already seen the savings rate jump from zero (and even negative) just a few years ago to 6.9% in its most recent reading. Prior to 1992 this rate ranged from 7% to 11% so one can imagine the near term impact on consumption if renewed frugality combines debt retirement with increased savings…leaving less for spending. As we've pointed out in the past, with consumers representing approximately two thirds of our domestic GDP, individuals clamping down on their use of plastic *and* the cash they spend will *not* be part of any economic stimulus program for a while.

Expressed in a more global perspective, the U.S. has been much of the world's favored marketplace, as everything from Indian outsourcing to Taiwanese computers and Persian Gulf oil have flocked to our shores to barter dollars. The recent reductions in our trade deficit numbers shows evidence of a constrained American consumer that won't be as acquisitive during this process of balance sheet repair and restoration. Think of this as a trickle *around* effect – the U.S. saves more, we spend less and therefore buy less from overseas, thereby slowing production in the developing world as well.

> *"We are hitting a massive reset button on our economic world, taking us to some new and lower level of consumer spending, leverage, etc. No one knows what the new level will be, although admittedly we are closer to it than we were a year ago."*
>
> *"At this new normal, we will not need as many malls or factories or stores or new-car plants or car dealerships or any number of other things to satisfy the new normal of consumer desires. As an example…capacity utilization is now approaching 65%. Anything under 80% is anemic. Does anyone really think that businesses (in general) are going to invest more money in expanding capacity, in the face of the lowest level of production relative to potential since the 1930s?"*
>
> *J. Mauldin 06/19/09*

Although consumer confidence has been buoyed of late, the key to that kingdom still resides in the condition of the housing market. With home ownership representing a significant component of ones financial well being, it's instructive to recognize that the "castle" has taken significant hits from the bubble peaks of 2007. The most recent Case-Shiller numbers showed the year-over-year decline through the end of April to be 18.1%, a slight moderation from March's 18.7% drop. This reduction in net worth has impacted the aforementioned credit access by paring back available home equity, and has also had a huge impact on employment as the building industry has pretty much ground to a halt. The significance of this is within the context of the collateral impact that residential construction can have on other sectors. From the components of the home building process, to appliances, furniture and home service, to name a few - all have been affected and a sizable swath has been cut through our economy. Housing still has to work through nearly 11 months of existing inventory, to say nothing of any additional foreclosures that may add to that supply, before a more normal balance is reached and the industry begins to move forward again.

Similarly, the investment world and its recently outsized expectations for rates of return will be reigned in as a result of this economic reset. Just as the real estate bubble was fed by borrowing that created unsustainable demand and unrealistic price increases, the investment world's use of leverage (think hedge funds and private equity) created the same monster. Investment banks and hedge funds will face regulatory monitoring to proactively assess risk assumption and that will contribute to limiting rates of return. Going forward the tortoise, at the expense of the hare, will emerge as the clear winner with the focus centering on manageable total return rather than myopic capital appreciation. As we've said in the past, you can still score runs by consistently hitting singles – it's not necessary to swing for the fences every time at the plate.

Ultimately this will all be good for our economic world as the leveraged house of cards morphs into something with a much more solid financial foundation – it's just the process of getting there that's going to slower than most people are imagining. Patience is something most emotional investors lack by being overly focused on the trees and not having the ability to view the forest.

> *"Maybe this is a manifestation of a confusing macro picture, a stock rally that was hard to catch, a market swayed tick-by-tick by trading algorithms and gold refusing to make new highs despite all the money-printing."*
>
> *"It is slightly encouraging so many folks are resorting to outlier explanations for what could simply be understood as massively oversold market meeting profoundly underinvested investors enabled by a wave of liquidity."*
>
> *M. Santoli, Barron's 07/06/09*

For a rational investor focusing on cash flow and total return, a longer term view will provide a target rich landscape of asset allocation opportunities. The vagaries of daily price swings become less significant, and less evident, when viewed through the lens of a more realistic time horizon. Life is full of stages and is lived over a period of many decades – ones investment strategy could benefit if crafted from a similar perspective.

EQUITY MARKET OVERVIEW — INVESTMENT POLICY COMMITTEE

Back From the Depths…

The 2nd quarter of 2009 reversed somewhat the relentless pounding that global equity markets have been enduring since late 2007. Having bounced off of the early March lows by the close of Q1, bourses worldwide rebounded sharply during Q2 as signs of the financial markets healing began to appear. With economic Armageddon seeming to be just a tad more likely than a Cubbies Series victory, the fear (and collateral call) induced forced selling from last fall and this winter attracted bids as both relative and absolute values were perceived to abound. Consistent with the manic nature of the markets recently, the "it's different this time" euphoria from the '07 highs, which crumbled into the post-Lehman despair from late last year, returned from the grave in a quarterly bull-run not seen in more than five years.

And although we don't have a directional disagreement, as noted previously in this space, with this quarter's rebound, we're a bit uneasy with the potential inconsistencies presented when one attempts to reconcile a V-shaped market chart with an economic recovery that will more likely resemble a rather wide U. In short, our visual is of Wiley E. Coyote igniting a back-mounted rocket in a vain attempt to keep up with the Roadrunner, only to find that the fuel was consumed just *after* the pavement ended at the edge of the canyon.

> ***"****Our gripe with the stock market is not that it has celebrated its recovery from its frightening brush with outright disaster by staging a booming rally. Hey, after being almost cut in half in barely 12 months, it was more than entitled to a quantum leap (but, frankly, we never dreamed that leap would be quite so quantum)."*
>
> *"What continues to bug us about the rebound is that it's largely built on dubious expectations. And it seems like every passing day, just about anything that comes down the news-pipe is transmuted into an excuse to buy."* *A. Abelson – Barron's 06/15/09*

The Dow had its best quarter since the 4th in 2003, as the 29% surge from the March 9th lows resulted in an 11% gain for the quarter, and hit the mid year mark with a modest 3.9% decline on a year to date basis. Other domestic indices fared a tad better give their exposure to the tech sector, with the S&P 500 up 15% for Q2 '09 and inching into positive territory with a year to date gain of 1.8%, while the NASDAQ surged 20% in the quarter and posted a 16% return through mid year.

Overseas markets also turned in positive quarters, with the developing world following up on its Q1 move to the forefront after last year's perilous declines, and besting the developed markets again by wide margins.

London's FTSE 100 rallied 8.2% in the quarter and hit the mid-year mark off 4.2%, while its Euro-based counterparts fared even better with Frankfurt's DAX up 18% for the quarter (flat YTD) and the Paris CAC 40 climbed 12% (-2.4% YTD). Tokyo's Nikkei was the big winner in the developed world, jumping 23% in Q2 and posting a 12.4% gain through the mid-year mark.

The developing world, in contrast, continued their bungee-like rebound from last years declines, and saw Bombay's Sensex leaping 49% in the quarter (up 50% YTD), Turkey's National ISE up 43.4% (38% YTD), Russia's RTS climbing 43.1% (56% YTD) and Argentina's Merval increasing 41% in Q2 to hit the mid year mark up 47%. The more robust returns in the emerging markets can be attributed to a momentum-driven consensus based on the premise that the developed world will be constrained by the fiscal and monetary burdens of recovery, while developing countries, and their current account surpluses, will see more growth in a shorter period of time.

> *"Stocks rose around the world in the second quarter, particularly in emerging markets. But investors worry about a pullback if the global economy continues to struggle… In June, some global markets dipped as doubt crept in ahead of second-quarter earnings reports, and as investors reconsidered whether gains reflected fundamental economic improvement or just relief that the worst-case scenario hadn't panned out…A research report from Citigroup Inc. during the quarter forecasted economic growth, not adjusted for inflation, of 5.8% in 2009 in emerging markets, compared with a decline of 4.7% in developed markets."* *WSJ 07/01/09*

Although we feel that the markets may have gotten ahead of themselves over the short run, we continue to adhere to our belief that a continued and gradual bottoming process will characterize the balance of the year. We are not compelled to pick an absolute bottom but will focus instead on relative values that produce attractive cash flows as a means of achieving our longer term total return targets. As we've pointed out in the past, market unease can create opportunities for disciplined investors making rational, rather that emotional, asset allocations decisions.

BOND MARKET OVERVIEW — INVESTMENT POLICY COMMITTEE

Treasury Bubble…

With the credit markets having been the eye of the world's financial storm over the last 18 months, improvement in the debt markets would be a requirement before the equity markets, as leading indicators, could be the canary in the mine for any semblance of economic stability. Last year's dysfunctional commercial paper market and auction rate securities debacles were emblematic of how the bond market could lead the stock market lower during periods of financial stress. The second quarter saw funds beginning to flow from the perceived safety of sovereign debt back into more diverse fixed income holdings:

> *"Risky credits rallied, while Treasurys posted record declines, demonstrating the high price of seeking safety in the battered credit markets.*
>
> *"Corporate bonds and asset-backed securities recovered to levels last seen before the financial world fell apart in September, and the thawing credit markets enabled more borrowers to raise cash."* *WSJ 07/01/09*

As mentioned last quarter, the F.O.M.C. came in to 2009 with a limited monetary arsenal to fuel additional economic stimulus. With interest rates pegged at virtually zero, the Fed focused on coordinated buying of Treasury and mortgage securities, coupled with their jawboning, to maintain the lower rates they desired to keep credit affordable as a support for the economy. This quantitative easing policy was an attempt since the beginning of the year to jump start the economy, but ran into headwinds as the bond vigilantes made their presence known by pushing Treasury prices down and, as a result, yields up. Their position was that current fiscal and monetary policies would ultimately be inflationary and force the Fed to raise rates and defend the dollar.

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"The coming months will be a test of the resiliency of the market's recovery. There are signs the recent rally in riskier assets could be running out of steam, and the slowing economy is likely to lead to more defaults among individuals and corporate borrowers."

"By the end of June, corporate bonds had given up some of their gains, while mortgage rates and yields on long-term Treasurys remained elevated despite efforts by the Federal Reserve to keep them low." *WSJ 07/01/09*

These cross currents in the credit markets produced disparate returns as the reverse flight to quality benefited investment grade bonds, which were up 11% in the quarter, at the expense of Treasurys, where the 10 year note had one of its worst quarters on record, producing approximately a 4% loss for the quarter. Despite the Fed's market intervention on the buy side, the 10 year yield, which started the year at 2.253%, climbed from 2.688% at the end of Q1 to 3.521% as we hit mid year. The Treasury-Investment Grade spread, which had been canyon-esque during the dark days of last year's 4^{th} quarter, closed from 6% at the end of March to 3.3% at quarter end, similar to the pre-Lehman levels of 3.4%. Similarly, the 3 month dollar-Libor (London Interbank Offered Rates), a measure of banks comfort and willingness to lend to one another, closed from 1.192% at the start of the quarter, to 0.595% at the end of June, far below their October 2008 highs of 4.82%.

Last year's fear induced run to the dollar and Treasurys will likely continue to be reversed as market stability returns and risk-return matrices become more normalized. In that environment one can anticipate higher interest rates on the short end of the yield curve, and increasing inflationary pressures as the supply of greenbacks eventually forces the Fed to yank the punch bowl from the party. Although not yet out of the woods, it does appear that the credit markets are "rationalizing" economic stability efforts and beginning to allow capital to be allocated accordingly. Fear, which has been the trump card for the last nine months, is now having to compete with greed, thereby indicating a move towards the more universal balance in the capital markets.

As noted last quarter, within this environment we will continue to focus on the opportunities in floating rate issues that will provide the benefit of adjusting to rising interest rates going forward, as well as the hedging benefits from government backed inflation protected securities. Employing both dollar denominated issues, along with those in other currencies, will help insulate against future reductions in purchasing power that could result from increasing rates of inflation and interest. Combined with the select opportunities that present themselves in other corners of the bond market, we feel the evolving recovery over the intermediate term will be rewarding for prudent longer term investors.

WEALTH MANAGEMENT UPDATE — TRACY W. ROGERS

The Retirement Challenge

The recent market downturn has "stress tested" retirement plans and forced many investors to adjust retirement assumptions. This is an opportune time to reexamine your goals and determine if you are still on track. We look forward to discussing this important subject with you as you consider your own retirement options and preparations. For now, this overview may help you to get started. It is not intended to answer every question on the subject, but to introduce the most important planning elements.

The days of the stereotypical rocking chair retirement, if they ever existed, are long gone. Retirements now come in every imaginable shade of gray, red, yellow and green. Some people happily abandon the working world at 55 while others continue to work in some form until the day they die. Some dive headlong into golf, travel, volunteer work or artistic expression; others are content to hang out with grandkids. Some thrive for decades; others struggle with illness – their own or that of a spouse.

To begin the planning process, we will break down the issues and look at how the mathematics of retirement works. Because retirement years can be spent in so many different ways, making concrete financial plans can be complicated and demands a careful look at many choices and variables. How much money will you need? When can you afford to retire? How should you invest your savings to generate the income needed after your last paycheck clears? There are many questions to address.

The Bucket Theory

Think of the financial equations of retirement as a big bucket. Into the top of the bucket we add money throughout our working years. Over time, the level rises from these deposits and from the growth of our investments. Upon retirement, the flow of money into the top of the bucket slows. At the same time, money starts dripping out of the spigot at the bottom of the bucket to finance the many expenses of retirement – from food and clothing to healthcare and recreation. The goal is to achieve your desired retirement lifestyle without the bucket running dry.

How much cash flow will I need at retirement?

Before we can judge how much must go into the top of the bucket, you must determine how much you will need to draw out of the spigot. The most common mistake in this area is to underestimate the cost of a satisfying retirement lifestyle. A general rule of thumb is that you will need 75% of pre-retirement income.

From current expenses, we can begin to estimate retirement expenditures. Which current expenses are discretionary and which are not? How much goes to housing, transportation, energy, education, medical care, travel and other cost categories? Which costs, such as college tuition or mortgage payments, will eventually end? Which, like health care, will continue and grow over time? Our experience working with clients of varied income levels has shown that proper cash flow planning for the stages of retirement is the best way to estimate needs.

How long will retirement last?

Understanding expenses lets us predict the rate at which money flows out of the bucket. But *how long* must it flow? We can generally control when retirement begins, but when it ends is another matter. Whether we like it or not, a quick discussion of life expectancy is essential.

In general, each generation lives longer than the one that precedes it. Life expectancy at birth in 1950 was 66 for males and 71 for females. By 2002, these figures had increased to 74 and 80, respectively. And life expectancy changes with age as well. For example, additional life expectancy for a person who reaches age 65 is 16 years for males and 19 years for females. This means that at birth, males have a life expectancy of 74. However, if they reach age 65, life expectancy increases to 81, an increase of seven years. For couples the relevant life expectancy is that of the "second-to-die," which is greater than it is for either separately.

Of course, all of these figures are actuarial averages. How long each individual lives depends on medical history, risk factors and imponderables such as accidents. And making financial plans based on the average is very dangerous – because 50% of a given population lives longer than the average. A more prudent planning horizon is the life expectancy of the "top 20%" – the 20% of the population that lives the longest.

The Stages of Retirement

It is important to recognize that retirement does not have just one stage. It has several and each stage requires somewhat different cash flow planning, investment allocations and risk management techniques. These stages are as follows:

A. The active years - Age 55-75 – this period is characterized by travel and physical activity – revisiting hobbies – maybe going back to school. This is also the period where second careers may be started. These are typically years of high spending.

B. The slow down period - Age 76-85 – this stage is characterized by more modest activity and spending. Health care needs and expenses start to become an issue.

C. The transition period - Age 86-95 – The need for real income declines to as low as 50% of the income needed in the active stage of retirement. Healthcare expenses begin increasing substantially as does the probability of needing nursing home or home care. By this stage of retirement, 82% of couples will have experienced the death of a spouse.

D. The single survivor period - Age 96-105 – 90% of people are unlikely to live beyond age 95 and there is a less than 1% chance that both members will live beyond 95. The single survivor beyond age 95 will require much less consumable income as healthcare expenses consume the majority of income.

Planning

While we have discussed areas of retirement planning that need to be addressed, there are others that need to be taken into account. Working with your other professionals advisors, we can deal with estate planning, risk management (insurance), charitable wishes and the like. Through proper planning and implementation, IMCG strives for our clients to enjoy a most satisfying retirement. The reality is that there is no "one size fits all" retirement plan. Solutions may range from the very simple to the highly complex. Again, this may be a good time for us to meet to reassess your goals and discuss your personal stages of retirement and plan accordingly. We look forward to seeing you.

INSIDE THE MARKETS — FRANCIS J. DAVIES III

Saving Capitalism from the Capitalists

"I made a mistake in presuming that the self-interest of organizations, specifically banks and others, was such that they were best capable of protecting their own shareholders and the equity in the firms." Alan Greenspan, testifying before the Congressional Committee for Oversight and Government Reform on October 23, 2008.

As a member of Ayn Rand's inner circle, Alan Greenspan shared her certainty in the preeminence of the rights of the individual and the danger posed by government influence. In 1963, writing in Rand's "*Objectivist*" newsletter, he noted, "It is in the self-interest of every businessman to have a reputation for honest dealings and a quality product." During his 18 years as head of the Federal Reserve Board (until 2006), this was reflected in his outspoken opposition to regulation of financial derivatives, particularly credit swaps. Like Rand before him, he believed that financial institutions would regulate themselves and that the wisdom of efficient markets would control speculation.

Mistake one was thinking that markets are self-correcting. James Grant wrote, "Greenspan, in a very unwise left-brain way, imputed pure rationality to markets. And you know they're just as rational and just as efficient as the people who operate in them." The second and more lethal error was trusting financial institutions to behave honestly, when it was not their money at stake. This classic economic situation is known as the "agency problem," when a conflict of interest exists between creditors, shareholders and management because of differing goals. The goal of the investment banks was to generate enormous fees for creating mortgage paper (and other products) and sell them to their clients. The long term viability of the investments did not influence the banks' profitability.

As we stand at the start of the second half of 2009, the worst of the financial meltdown appears behind us. Both the public and the regulators continue to sort through the wreckage of the debt-fueled economic explosion, seeking clues, looking for the black box that holds the flight recorder and the data that may help explain how this happened. More importantly, the information may help to prevent another such debacle.

Two diametrically schools of thought are battling for popular backing. The first states that private sector decisions can sometime lead to inefficient outcomes, such as speculative bubbles, and should be controlled by regulatory bodies. Known as Keynesian economics (after John Maynard Keynes), this camp assumes that increased government regulation of the financial industry may well have slowed down, if not totally prevented, the subprime, over-leveraged, drunken binge, debt explosion.

Countering that is a viewpoint that believes just as strongly in less government interference – the afore mentioned libertarian, Ayn Rand camp. These brave souls seek a return to the golden age of unfettered American capitalism, when we ruled the global economy. Both plans are equally wrong; both are based on simplistic assumptions and both lead to dangerous, unintended consequences.

It is true that the country had little regulation during some of our epochs of immense growth of wealth, such as the years that followed the ending of the Civil War. Many great fortunes were created and many dynasties first established during this time. A fascinating look at that period is found in The First Tycoon, a recent biography of Cornelius Vanderbilt by T.J. Stiles. During those carefree, unregulated days, the head of a major public company (the railroads were the first really large corporations) could let slip that they had lost a major contract. As the bad news spread through the newspapers (this was a long time ago after all), the public would run to sell their shares in the company and the stock would collapse. This would create a great buying opportunity for company insiders who had been tipped off. Next there would be an announcement that the railroad had retained the contract after all and the stock would skyrocket. The insiders would realize a quick fortune and prepare for their next adventure.

Back then, public officials could participate in the manipulation at a level that would surprise even today's skeptical electorate. This makes pork barrel projects look like child's play. During the early years of the Civil War, when the outcome was still very much in doubt, the city councilmen of New York City were deciding who would get the right to run a streetcar line down Broadway. They selected Vanderbilt's *New York & Harlem Railroad*. Before announcing the decision, the councilmen bought as many shares as their credit would allow. They sold these as the stock soared and then shorted the stock, because they planned to then revoke the Broadway franchise. It is remarkable that elected officials would hinder the economy for personal gain while the future of the Union was hanging in the balance. Vanderbilt crushed them by cornering the market in the stock so they had no shares to deliver to meet their short positions. It was a rough hewn, Wild West system of justice, and unless you get to be the tycoon, it is not a situation that many would really want to see return.

On the other hand, there was no shortage of guidelines leading up to our current financial troubles. Trust me - we have to deal with them everyday. As any business that is highly regulated soon discovers, it is not compliance with government rules that is exasperating. The frustration comes from the knowledge that the policies and laws are pointless. For example, after September 11, the government wanted to make sure Al Qaeda was not laundering money through brokerage accounts. The result was a series of mandated procedures that were burdensome, time consuming and ineffective. We see this thought process in action every time we go through security at an airport. It is a "*Maginot Line*" syndrome, constructing defenses that address an outdated threat.

The goal should be to retain the inherent value of a capitalist system. I would think that competition is primary amongst those, yet we have to regulate against monopolies. It seems absurd that one can be too successful, but monopolies can crush innovation faster than a Soviet Five Year Plan created starvation. Entrepreneurs are said to be the sparkplug of a capitalist system, but in this country the subsidies and tax breaks are reserved for large conglomerates.

If we ever hope to create smarter, simpler regulation we should no longer allow the effected industries to write their own rules. While this happens in every area (the defense industry is a prime example as is agriculture), Wall Street is the most blatant abuser. There is a revolving door between financial firms and the regulatory bodies that over see them. But there is one firm that stands head and shoulders above the others in writing their own rules, which is why people in the business now refer to Goldman Sachs as “Government” Sachs. Their reach and control of the regulatory process is awe inspiring.

Robert Rubin, my wife’s former boss during the first mortgage created crisis, worked for 26 years at Goldman and then went to Washington to run the Treasury for Bill Clinton. The Treasury secretary under George W. Bush, Hank Paulson, moved his position as CEO of GS directly to designing the bailout that made his firm a fortune. The plan gave $300 billion to Citigroup, where Rubin was now chairman. Bush’s chief of staff, Joshua Bolten, worked at GS. Goldman alumnae run the national banks of Canada and Italy, the World Bank and the New York Stock Exchange.

A total absence of regulation worked when the economy was small and the population was essentially self-reliant. It was assumed that everything was crooked and there was no trust. Some oversight is necessary, yet ponder the insanity of former Goldman partners rewriting rules to the benefit of their former employer. The answer is not laissez-faire and it is not Big Brother. There need to be consequences for actions. A financial firm should have to buy their own products. Goldman was producing mortgage debt as fast it could get them out the door to their institutional clients. At the same time, they were shorting them in their own trading accounts, knowing the crash was coming. Essentially the same as the robber barons manipulating their company stocks back in the 1870s.

It is time to realize that what is good for Wall Street is not necessarily good for the country. The regulators need to be as smart as the investment wizards and have the ability to act as a brake. Not all innovation is good, particularly when it comes to financial products. Our government is based on a system of checks and balances. In the same way we need government oversight to balance the economic self-indulgence found in the marketplace. Risk management deserves more than just lip service. We can no longer have industry insiders writing the rules. And the parties that profited from the excess should be held accountable. It is a difficult balance – but if capitalism is to be the economic model of the future, we have to get this right. Dogmatic trust in government or free markets must be tempered with a dose of reality. As Ayn Rand put it:

“The hardest thing to explain is the glaringly evident which everybody had decided not to see.”

***STEPHEN L. EDDY* –** We're pleased to announce that Steve has joined IMCG as a Vice President & Fiduciary Consultant, having been active in the trust and investment management industry in Maine for twenty four years. After tenures at Maine National Bank and Key Trust Company, in 1994 he helped start up the trust division for Peoples Heritage Bank (now known as TD Wealth Management), where he earned the title of Senior Vice President and built and managed all aspects of their retirement plan business from Maine to New Jersey. After leaving TD in 2008, he has joined IMCG to focus exclusively on our investment advisory and retirement plan consulting services.

As IMCG's Fiduciary Consultant, Mr. Eddy oversees the Fiduciary Consulting Service for 401k and other retirement plans as well as being a member of IMCG's Investment Policy Committee. He will specialize in all aspects of retirement plan consulting, including qualified and non-qualified retirement plan design, education, implementation, vendor and process management, and performance monitoring.

IMCG SEMINARS & EVENTS:

AUGUST 25TH – *THE PORTLAND COUNTRY CLUB:* **"The Post Stimulus Economy – Where Will The Opportunities Reside?"** – A discussion about the economy and capital markets, focusing on what prudent long term investors should do to properly align their portfolio allocations and financial plans with the current environment. Seating is limited so please reserve space by calling 800.605.6552 or via e-mail to admin@imcgrp.com.

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