

January 15, 2010

## **Fourth Quarter 2009 Update**

### **What a Year!**

Financial markets are often likened to roller coasters, and in 2009 that comparison was accurate. The year began with extreme panic as many businesses and consumers teetered on the edge of bankruptcy and financial ruin. Pessimism and volatility reached record heights as the financial markets plummeted. As the government provided grease in the way of monetary stimulus, the financial markets began a consistent and impressive ascent in early March as the free money began to improve confidence and business conditions. Improvement accelerated throughout the year and the financial markets ratcheted higher with a great deal of consistency, ultimately finishing the year on a high note. 2009 witnessed some of the most extreme financial market conditions in a remarkably condensed amount of time. From the March 9<sup>th</sup> market lows, the equity market shot up by 64.8%, the best gain since the 67.0% increase in December of 1935.

Braver Wealth Management managed the 2008-2009 roller coaster ride in good form. We are pleased that our wealth preservation programs were able to smooth the track for many of our clients. By design, our wealth preservation programs seek to avoid major market corrections while still providing the opportunity to capture a sizeable portion of up market movements. We are pleased that over the past two years of precipitous declines and an impressive recovery, we were able to preserve wealth, stay disciplined to our investment mantra, and capture a sizeable portion of the eventual recovery in 2009. Our strategies worked as designed and we hope that we have made the past two years less turbulent for our clients and their families.

### **2009 Summary Returns – Get Me Off This Ride!**

It is difficult to view 2009 in isolation as much of the strength that appears in the annual performance numbers is misleading due the severe negative returns in 2008. We encourage investors to view 2008 and 2009 together to gauge the full extent of returns in the complete market cycle. Most major market indexes finished the year up very strongly in 2009 and helped many investors recover a portion of the large losses sustained in 2008. However, over the two year period encompassing 2008 and 2009, most traditional equity investors are still negative by a fairly wide margin. Investors around the globe that subscribe to the traditional 'buy and hold' investment approach are likely seeking ways to get off the roller coaster. We have outpaced this traditional investment approach through the help of our tactical wealth preservation programs. A summary of the past two calendar year returns are shown on the next page.

	<b>Calendar 2009</b>	<b>Calendar 2008</b>	<b>Avg. Annual Two-Year Return</b>
<b><u>Wealth Preservation</u></b>			
Braver High Yield Bond	47.8%	2.4%	23.0%
Braver Diversified Asset	8.0%	0.6%	4.2%
Braver Tactical Allocation	15.4%	-7.2%	3.5%
Braver Strategic Portfolio	12.1%	-14.6%	-2.2%

### **Traditional**

Braver Sector Rotation	9.3%	-31.6%	-13.5%
Braver Asset Allocation Conservative	15.9%	-23.1%	-5.6%
Braver Asset Allocation Moderate	22.6%	-31.7%	-8.5%
Braver Asset Allocation Growth	25.6%	-35.4%	-9.9%

### **Comparative Indexes**

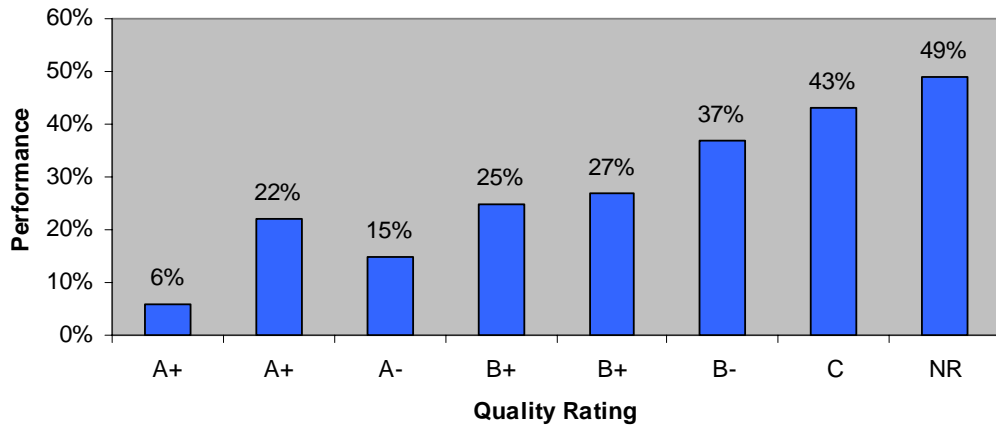
Standard & Poor's 500 Index	26.4%	-37.0%	-10.8%
Russell 2000 Small Cap Index	27.1%	-33.8%	-8.3%
MSCI EAFE Index (Int'l Developed)	31.8%	-43.4%	-13.6%
Barclays Aggregate Bond Index	5.9%	5.24%	5.6%
Barclays US Treasury 20+ Year Maturity	-21.4%	33.72%	2.5%
60% S&P 500 / 40% Barclays Agg Bond	18.2%	-20.1%	-2.8%

### **Risk Taking Rules the Year**

By the end of 2009, risk taking had paid off! The riskiest securities and asset classes generated the highest returns whereas the safer vehicles, such as U.S. Treasury Bonds, lagged. U.S. Treasury bonds, as measured by the Barclays US Treasury 20+ Year Maturity Index, actually finished the year in negative territory losing 21.4%! This took many investors by surprise and more negative returns may be in store for Treasuries given their historically low yields, the potential for inflationary pressure and interest rate increases, and recent heavy demand waning.

Within the equity markets, investors witnessed wide differences in returns as the lowest quality holdings dramatically outperformed their higher quality brethren, as illustrated in the below chart. Investors' unrelenting desire for risk as the year progressed may seem surprising but when the Federal Reserve Bank is handing out free money, it often leads to risk taking and this was the case in 2009. This was part of the emotional roller coaster that investors rode throughout the year, going from extreme conservatism in the early part of 2009 to aggressive risk-taking later in the year.

**A Global Low Quality Rally**  
**S&P 500 Performance by S&P Equity Quality Rating**  
**Calendar Year 2009**

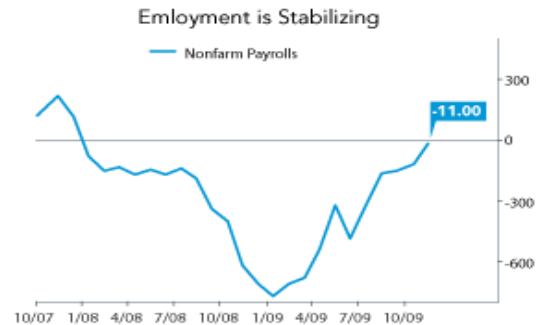
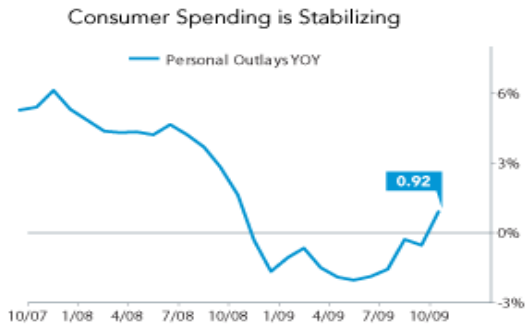
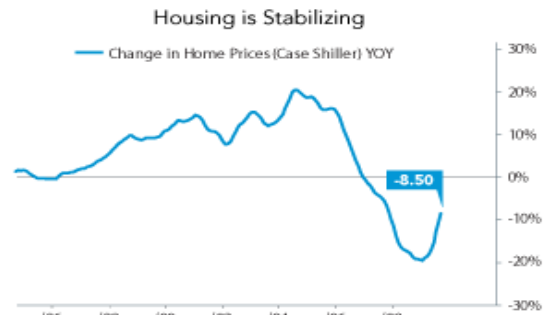
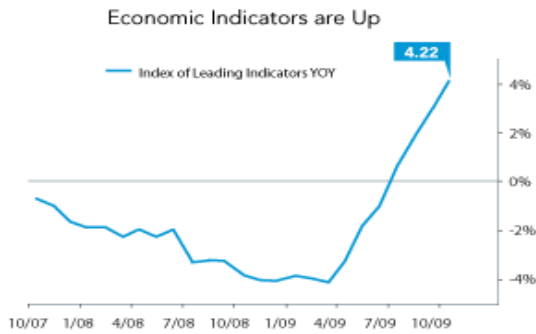


**High Quality** —————> **Low Quality**

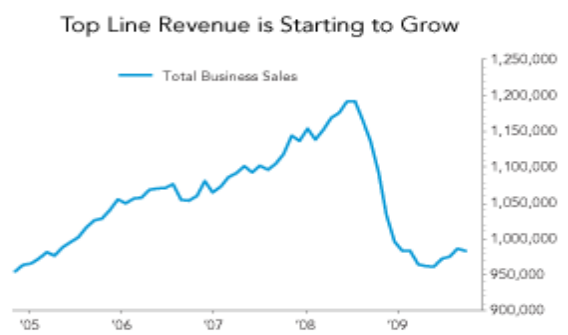
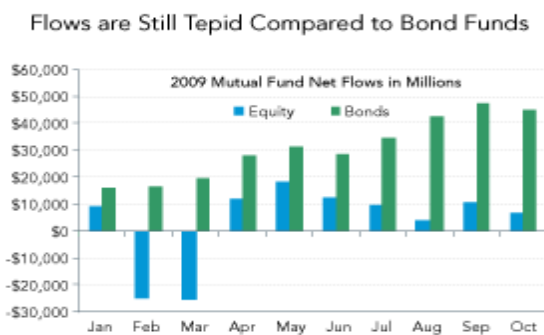
Source: Morgan Stanley  
 \*NR – Not Rated, low quality

**Normalization in 2010?**

We experienced two consecutive extreme years, or so called market anomalies, in 2008 and 2009. Given the recent recovery and stabilization of many economic indicators, the financial markets themselves, and investor sentiment, we are hoping for a more normal economic and investment climate in 2010. Barring an outside shock to the system, the variability may be less pronounced given what appears to be a more stable and modestly improving business climate and gradually improving financial conditions. Below is a set of economic statistics that point to stabilization and the early signs of recovery.



The financial markets do not show fundamental signs of weakness. Positive and encouraging fundamentals are in place and continue to emerge. Earnings growth appears to be on the mend and this will ultimately drive equity valuations.



Courtesy of: Fidelity Investments

Source: FACTSET

## **2010 Outlook**

The U.S. and global economies have certainly come a long way in the past nine months and there is more work to be done. Although we are not out of the woods, the above economic information points towards an environment that is in the early stage of stabilization and recovery. We expect a gradual recovery to continue through 2010. Once we get through this short term financial crisis, the U.S. and the world will have to begin to address the harsh realities of the costs and the debt burden assumed at the sovereign level for the bailouts. The increased debt burden will surely place strain on long term economic growth potential. As such, we do expect the environment to remain volatile and challenging for an extended period of time. We aim to minimize the ups and downs for our clients through prudent diversification and proper allocation to our wealth preservation programs.

We are all thankful to have survived this wild ride and truly appreciate your loyalty and business. We sincerely wish all a healthy and happy New Year and stability in 2010.



Dave D'Amico  
President