Rembert | Pendleton | Jackson

Financial Advisors

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2010 Year-end: Investment Benchmarks

MARKET COMMENTARY - Fixed income asset classes retreated and other asset classes set records in the fourth quarter as the overall markets delivered strong results in another volatile year. We are constantly reminded that there are "unknown unknowns" when investing. Therefore, our investment philosophy continues to favor an asset allocation strategy over one based on predictions of future market behavior.

The overall bond markets delivered another solid year of performance despite a weak fourth quarter. This asset category helps to provide safety and liquidity to portfolios during volatile times in equity and other asset classes. The primary focus for this category is to be mindful of duration, maturity, and the quality of the fixed income holdings.

"Investing is managing available assets prudently. Investing does NOT require holding equity positions to be appropriate and effective."

The equity asset classes performed well in 3 out of 4 quarters during 2010. By year end, small cap stocks, both domestic and international, had outperformed large cap stocks. If allowed by the investment policy, portfolio diversification into these asset classes has contributed positive results over the last two years. We are optimistic that the equity markets are recovering in a sustainable manner.

* * NEWS YOU CAN USE * *

RISK TOLERANCE - Defining your organizations risk tolerance level is one of the most important parts in your Investment Policy Statement (IPS). The annual IPS review is an ideal time to evaluate how you have documented this important guideline. A clear description will help ensure your investment process is properly aligned to meet your needs.

Simple phrases such as Conservative, Moderate, and Aggressive are often used to describe an organizations risk tolerance level but these phrases do not provide sufficient detail without additional information. Similarly, statements like "meet portfolio objectives without exposure to undue risk" provide little in the way of specific criteria and may in fact represent conflicting guidelines. (For example, a portfolio objective of 7% average annual return and a conservative risk tolerance level are probably not compatible.)

"The Uniform Prudent Management of Institutional Funds Act (UPMIFA) is a must read for all members of the Board of Directors."

Standard deviation is used to measure the volatility or variability of an investments return from its average return and may be worth considering as part of your risk tolerance statement. If an investment goes up and down frequently and/or in large amounts, it would have a high standard deviation. If an investment remains relatively stable over extended periods of time, it would have a low standard deviation. Correspondingly, the higher standard deviation represents higher risk tolerance and a higher potential risk of loss.

It is also important to note that standard deviation measures variation from the average at three levels. One standard deviation would be expected 68.2% of the time, two standard deviations would be expected 95.2% of the time, and three standard deviations 99.8% of the time. Most investment detail reports identify the value of one standard deviation. This is useful, common and convenient, but does not represent the maximum variability of returns for an investment.

Standard deviation can be used to evaluate the volatility (measure the risk) of individual investments, asset classes, and/or a composite portfolio.

As an example, the Domestic Intermediate Bonds asset class shown in the table below had an annual return of 5.89% in 2010. The standard deviation for that asset class over the last 12 months was 2.76%. As illustrated in the table below, a standard deviation that is "smaller" than the average annual return is an indicator that the risk of loss is small, but not zero, for this asset class over a 1 year investment time horizon.

			Average = 5.89%			
-2.39%	0.37%	3.13%	SD = 2.76	8.65%	11.41%	14.17%
-3 SD	-2 SD	-1 SD		+1 SD	+2 SD	+3 SD

Similarly, the Domestic Large Cap Blend asset class had an annual return of 15.07% in 2010. The standard deviation for that asset class over the last 12 months was 18.86%. A standard deviation that is "larger" than the average annual return is an indicator that the risk of loss is greater for this asset class than one with a smaller standard deviation.

"An Investment Policy Statement (IPS) will define the investment objective, strategy, and process in sufficient detail to guide the actions of all parties."

			Average = 15.07%			
-41.51%	-22.65%	-3.79%	SD = 18.86	33.93%	52.79%	71.65%
-3 SD	-2 SD	-1 SD		+1 SD	+2 SD	+3 SD

Specifying in the IPS the acceptable range of volatility or standard deviation for each allowable asset class and for the composite portfolio clearly states how much the organization is willing to accept as a loss over the designated investment time horizon. It can be a very effective addition to the description of risk tolerance in the IPS.

You should consider two important points from this discussion. First, lower risk tolerance should mean a lower targeted standard deviation specified for your portfolio, and as a consequence you will have a lower potential risk of loss. Second, even if you have specified a low risk tolerance and your portfolio has a low targeted standard deviation there may still be periods of negative returns.

Using this knowledge will help you define your risk tolerance and support an investment process that aligns with the overall portfolio objectives.

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"We only advise clients in our capacities as fiduciaries."

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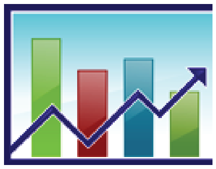
Here are *2010 fourth quarter and year-to-date returns* of typical benchmarks for selected asset classes. A diversified portfolio may include some investments in many (or all) of these asset classes (sorted by % change during Q4.)



Asset Class Returns

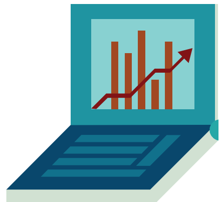
Asset Class	3rd Qtr. 2010	YTD 2010	Benchmark Index
International Fixed Income - Hedged	-2.03%	3.44%	JP Morgan – Global Non US- Hedged
Domestic Fixed Income - Intermediate Term Bond	-1.44%	5.89%	Barclays Capital Intermediate US Gov't /Credit Bond
International Fixed Income - Un Hedged	-1.36%	6.78%	JP Morgan – Global Non US
Domestic Fixed Income - Treasury Inflation Protection	-0.65%	6.31%	Barclays TIPS Index
Domestic Fixed Income - Short Term Bond	-0.59%	4.08%	Barclays Capital 1-5 year Gov't /Credit Bond
Inflation	0.35%	1.35%	Chained Consumer Price Index
Real Estate - Foreign	5.16%	16.01%	FTSE EPRA / NAREIT Global RE
International Stock Funds - Large Blend	6.65%	8.21%	MCSI EAFE Index
Real Estate - Domestic	7.43%	27.92%	FTSE NAREIT Equity – Equity
Domestic Stock Funds - Large Value	10.54%	15.51%	Russell 1000 Value Index
Domestic Stock Funds - Large Blend	10.76%	15.07%	S&P 500 Composite (Total Return)
International Stock Funds - Small Blend	11.84%	22.39%	MCSI EAFE Small Cap Index
Commodities	15.79%	16.83%	Dow Jones Commodity Index (TR)
Domestic Stock Funds - Small Blend	16.25%	26.31%	Russell 2000 Index

- Asset Class Returns in this table are represented by Benchmark performance numbers derived from Thomson Financial, Investment View software research tool. Organizations cannot invest directly in an index. Index returns do not include investment advisory fees or trading expenses. An investment benchmark is a standard against which the performance of an individual security or group of securities is measured. For example, the average annual performance of a class of securities over time is a benchmark against which the current performance of members of that class and the class itself can be measured.

- Actual portfolios should be constructed based upon an individual or entities specific financial resources, investment goals, risk tolerances, investing time horizons, tax situation, and other relevant factors. Not all recommendations will be suitable for all investors. Individual allocations and performance will vary.

- Performance results shown do not include a deduction for investment management fees or expenses. If management fees and expenses were included, the returns would likely be reduced by one percentage point or more for the annualized management fee, and there would also be additional trading commissions and expenses.

- Past performance is not a guarantee of future results. There is no guarantee that historical returns will be repeated, achieved, or met in the future. There is no guarantee that annual returns will be achieved or met in any year, especially during times of high market volatility.



Additional Market Indicators

2010 Market Indicators	End of Q3 2010	End of Q4 2010	Q4 2010 Change
Federal Funds Rate	0.25%	0.25%	0%
Prime Rate	3.25%	3.25%	0%
Oil (Barrel)	$81.27	$91.38	12.44%
Gasoline (gallon)	$2.70	$3.05	**12.96%**
NASDAQ Composite	2368.62	2542.87	7.36%
S&P 500	1141.20	1257.64	10.20%
Dow Jones Industrial Average	10788.05	11577.51	7.32%

RPJ Investment Advisory Services

If you are considering using the services of an investment advisor to assist in the preparation and/or review of your cash management and/or investment policy statement or to assist with the prudent management of your funds, we would consider it a privilege to have the opportunity to serve you.

For more information about our firm and our services please visit our website or give us a call.