

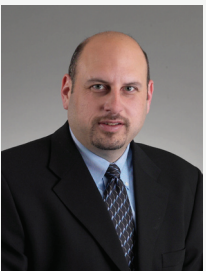
Financial Common Sense

Insights for Plan Participants

October 2009



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Financial Common Sense addresses issues facing today's investors. We are committed to an established investment philosophy and are passionate about helping our clients achieve their investment goals.

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Market Commentary by Craig Buckhout

Financial markets have responded well over the past six months as government and central bank actions around the world continue to address the financial crisis in an effort to ease the recession. Volatility has declined, interest rates remain low, and investors have seen values recover.

Equity Markets

The third quarter of 2009 was remarkable for equity markets as every asset class provided significant positive returns. The S&P 500 was up 15.6% for the quarter and 34% for the trailing six months, providing one of the best semi-annual returns of all time. It should be noted, however, that similar remarkable upswings occurred in the '70s and '80s. The huge market declines that occurred in 2008 leave trailing returns for three years in negative territory.

The dramatic turnaround in stock values seems at odds with the continuing increase in unemployment, and ongoing concerns about a slow economic recovery and potential rise of inflation. The jump in stock prices over the past six months is largely due to a reduction in uncertainty and not just a result of improved earnings prospects. The world seems like a safer place than it did six months ago, and that is reflected in the stock market.

Is It Time For An "Athletic Portfolio"? (Is Buy And Hold Dead?)

A recent article in *Financial Planning* magazine described the notion of an "athletic portfolio" comparing the proficiency of professional athletes with the ability of a skilled financial advisor to make tactical moves in and out of

financial markets, and "being willing to grab short-term opportunities and squeeze every fraction of return out of them."

To the action-oriented managers and entrepreneurs among us, this strategy has overwhelming appeal. In every other area of our professional lives, we know that action is the appropriate reaction to disappointing previous results.

Unfortunately, investing is less about taking action to change outcomes, and more about managing the inherent risk of uncertain outcomes. If it were simply a matter of taking action to improve our investment results, we could expect some smart academic researcher to find evidence of such success. If skill and action could overcome uncertainty, smart, action-oriented people would have a better chance than others of winning the lottery.

Successful investing is not a result of a willingness to take action. It does result from the discipline required to manage risk and uncertainty. It is important to take the emotion out of investment decisions and resist the temptation to assume that likely outcomes are guaranteed, and unlikely outcomes are impossible.

Buy and hold may be dead if we assume it to mean a strategy of utter complacency, buying a portfolio and never changing. But if we interpret buy and hold to be the implementation of a long-term strategy that manages risk through diversification and rebalancing, it still offers the best chance for success. ♦

Our Newest Team Member

Patrick Rohe is the most recent addition to the team. He graduated from Cornell University with a bachelor degree in both Animal Science and Applied Economics and Management. Additionally, he is a Chartered Retirement Planning Counselor (CRPC®). Aside from his niche in working with the agricultural community, Patrick spends a great deal of time cultivating relationships with small business owners and individual clients alike. He resides in Marcellus, NY where he still takes an active role on his family's dairy farm. Away from the office, you can find Patrick preparing his prized cows for regional, state, and national shows. ♦

We Have Moved! Please Note Our New Contact Information:

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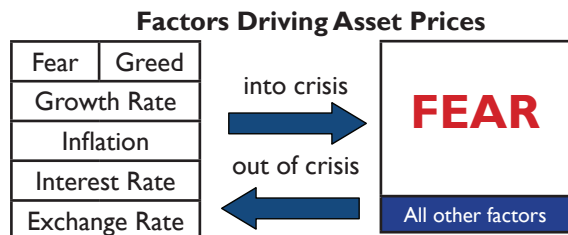
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Crash Course - Investment Lessons Learned by Tony Farella

As an advisor and investor, it's important to step back and think about the lessons we've learned over the past year. The first lesson is that the benefits of portfolio diversification are sometimes lost in a panic. Our goal when designing a portfolio for clients is to focus on an appropriate risk level that will provide an expected return that gives the highest probability of achieving financial goals. The expected annual return is rarely achieved in the short term or even over longer time periods. In some periods the return is quite higher than expected and in other periods is quite a bit lower (as in late 2008).

The goal of a diversified portfolio is to combine uncorrelated asset classes, ie., investments that behave differently in any given time period. Diversification reduces the risk in a portfolio for a given level of expected return. In a panic, such as late 2008, correlations don't matter and there is a flight to quality. I found this very interesting diagram below that depicts asset pricing during normal times and when panic sets in:



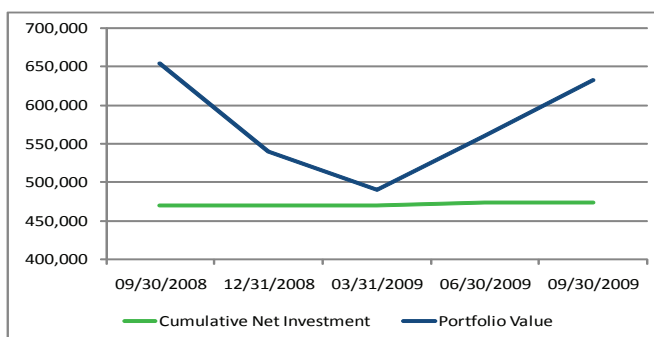
In Normal Situation

In Crisis

Asset classes do behave differently but not 100% of the time as we experienced in late 2008. When they behave similarly, it's usually at the worst possible time. As investors, we must accept this and stick with a well thought out investment plan. There is no evidence that anything else works nearly as well. Another lesson is the value of discipline and the ability to "do nothing" during a crisis. It is quite difficult to do

nothing when markets drop so rapidly and the value of your portfolio is negatively impacted. A natural human instinct is to fear loss and flee as quickly as possible. As a result, our disciplined approach to investing was severely tested during the crisis.

I thought it would be illuminating to see (graphically) how a well-diversified portfolio actually performed over the one-year period, September 2008 to September 2009. If you hung in there and did not panic selling, your portfolio held up very well. See the chart below for a moderate risk portfolio comprised of 60% stocks and 40% bonds. Investors who panicked and got out of the market at its low point locked in significant losses. By doing so they gave up the extraordinary market returns of the past six months. The chart shows how quickly markets can crash and rebound.



The market crash in 2008 and subsequent market recovery of 2009 should serve as a valuable lesson in the benefits of diversification and discipline. As advisors our job is to determine an investor's risk tolerance, build a diversified portfolio and control costs, all in an effort to give you the highest probability of achieving your financial goals. However, I believe the greatest value we provide is helping investors stick with a disciplined approach during good times and bad. ♦

Returns from Various Markets

The following table shows the returns from various markets over periods ending September 30, 2009:

Market/Asset Class	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
Money market	0.1%	0.2%	0.4%	2.8%	3.1%	3.1%	4.2%
Bond market	4.2%	4.7%	11.5%	6.2%	4.9%	6.3%	7.2%
Large-cap stock market	15.6%	19.3%	-6.9%	-5.4%	1.0%	-0.2%	8.0%
Small-cap stock market	19.3%	22.4%	-9.5%	-4.6%	2.4%	4.9%	7.9%
International equity market	19.5%	29.6%	3.8%	-3.1%	6.6%	3.0%	4.5%
Inflation	0.9%	2.7%	-1.5%	1.9%	2.6%	2.6%	2.8%

Market Benchmark Portfolios

The following table shows returns from our market benchmarks over periods ending September 30, 2009:

Benchmark	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
Capital preservation	3.8%	4.7%	5.1%	3.7%	3.9%	4.4%	5.7%
Conservative	7.5%	9.4%	5.6%	2.7%	4.1%	4.5%	6.9%
Moderate	11.0%	14.1%	4.8%	1.3%	4.1%	4.3%	7.6%
Aggressive	13.8%	17.7%	1.4%	-0.9%	3.7%	3.4%	7.5%
All equity	17.5%	22.6%	-4.4%	-4.2%	3.0%	2.3%	7.0%

Note: These results were developed by simulating past returns in the various markets included in each benchmark, assuming the reinvestment of dividends and other earnings and deductions of costs totaling 0.20%. The money market is represented by 90-Day Treasury Bills; the bond market by the Barclays Capital Government/Credit Bond Index; the domestic large cap market by the S&P 500; the domestic small cap market by the Russell 2000 Index; and the international equity market by the EAFE Index. This data is presented to show the long-term relationship between returns at various levels of investment risk. It is not intended to present performance results experienced by clients of Rockbridge Investment, but is intended to provide a benchmark against which actual performance might be judged. Also, readers should recognize that future investments would be made under different economic conditions. It should not be assumed that future investors would experience returns, if any, comparable to those shown above. The information given is historic and should not be taken as any indication of future investment results.