

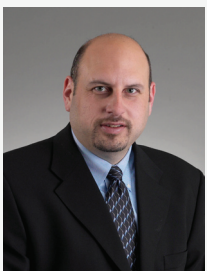
Financial Common Sense

Insights for Plan Participants

January 2010



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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

The Year Was Good, But Not Remarkable By Historical Standards

The history books will show that 2009 was above average but an unremarkable year for stock market performance. The S&P 500 returns exceeded 26% for the calendar year, which barely qualifies as top-quartile performance as 19 of the previous 80 calendar year periods saw higher returns. Of course this calendar year comparison ignores the 25% falloff in the first three months and the subsequent dramatic recovery. So, for those of us who have lived through the past two years, it will be a time to remember.

Bond Returns Reflect Easing of Credit Crisis

The broad bond market provided a return of about 6% for the year. The ten-year Treasury rate increased during the year from a level near 2% in January to almost 3.8% by the end of the year. Because bond prices fall when interest rates rise, returns on Treasury securities were meager in 2009 as rates rose. On the other hand, interest rates on risky bonds fell dramatically during the year, as a collapse in capital markets began to appear less likely, so the value of corporate bonds and junk bonds jumped dramatically, reversing the losses they incurred in 2008.

Where Do We Go From Here?

Much uncertainty remains in the markets and no one seems to be forecasting a rapid economic recovery, so, as always, surprising good news could lead to favorable jumps in market prices. Negative surprises will depress stock prices, but considerable pessimism, including slow growth and high unemployment, is already priced in. Stock prices seem reasonable by some measures; they are still well below the peak reached in 2007 or even the level attained in March 2000. So a long-term expectation of returns 6%-8% above inflation still seems like a reasonable level for expected returns on stocks.

TIPS Are Now Included in Many Portfolios

Inflation is a particular risk for people on fixed incomes, people who own fixed-rate annuities, and owners of long-term bonds. Treasury Inflation Protected Securities (TIPS) offer a way to hedge against an unexpected jump in inflation. Inflation is often expected to follow a rapid expansion of the money supply or a period of stimulatory monetary policy, which is not

reversed or withdrawn quickly enough to prevent inflation. As a result of the recent credit crisis, the Federal Reserve has flooded banks with reserves and remains committed to keeping short-term rates near zero for an extended period. Despite these events, and the growing trend in owning gold and real property, the market and many economists insist that inflation risk is low, particularly in the near term. The argument is that excess capacity and excess labor will keep in check any upward pressure on prices as the economy recovers. The market for TIPS is also predicting modest inflation with a breakeven inflation rate hovering around 2% over the next ten years (see inset).

Our investment philosophy is based on the assumption that markets work, so our best prediction of future inflation would be consistent with the market expectation of about 2% over the next ten years. Nonetheless, we are adding TIPS to many client portfolios, not because we think inflation will rise, but because they offer a way to diversify and reduce risk. ♦

Treasury Inflation Protected Securities or TIPS are sold by the US Government, and have the full backing of the Government, just like other Treasury securities. The difference is in the way investors are paid.

Nominal Treasury securities pay a regular coupon or interest payment and return the face value of the bond at maturity. TIPS also pay a regular interest payment, but each year the principal or face value increases (or decreases) at the rate of inflation, based on the increase (or decrease) in the Consumer Price Index (CPI). Subsequent interest payments are calculated on this growing principal amount and the "inflated value" is returned to the investor at maturity.

The spread between the coupon on TIPS and nominal Treasury bonds represents the breakeven inflation rate. Currently the spread for ten-year securities is about 2%, so if inflation averages 2% over the next ten years, an investor would be indifferent about owning TIPS or nominal Treasuries. If inflation is greater than 2%, the TIPS owner will realize a higher return, but if inflation is less than 2%, the owner of nominal Treasury bonds will be better off.



Patrick E. Rohe
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Where to Invest in 2010?

After the recent and extreme turmoil we have experienced in the financial markets, it seems like in every newspaper or magazine you can find an article about where to invest in 2010. So, where do you put your retirement nest egg and what do you believe?

Times like these provide a good opportunity to reflect back on all that is important when it comes to investing. So let's put the magazine articles to the side and re-examine the important fundamentals that make up our investment philosophy.

There are few things you can control when it comes to investing, and the short-term direction of the market is not one of them. Taking bets on the next hot stock or market sector is not the wisest way to rebuild your retirement portfolio. The question of where to invest in 2010 should not be based upon current "hot stocks" proclaimed by the media, but rather by revisiting the fundamentals of sound, low-cost investing.

Our investment philosophy is based on the theory that markets work. This means that we feel that any potential opportunity in a particular market sector or stock is already built into the price at which you can buy it. So, choosing segments of the market to invest in just amplifies your investment risk to levels much too high to justify the potential returns. Thus, let's go over a few of the simple disciplines that not only make investing more simplistic, but also give you the best chance to meet your retirement goals.

The three factors that any investor has control over when it comes to investing are:

1. The **amount of risk** taken in your retirement portfolio.
2. The **amount you save** leading up to retirement.
3. The **amount you pay** to be invested in those markets.

The amount of risk in your portfolio is a direct measure of how much risk you are willing to take, and also the amount of risk you need to take to reach your desired standard of living in retirement. Unfortunately, these two factors are usually not the same, especially after the recent market decline, so finding a comfortable median that you can tolerate is usually the best solution.

The amount you save is self explanatory and entirely up to you. Everyone wishes they could save more, but unfortunately "life" finds ways to make that very challenging.

The amount you pay to be invested in the market is very important to us here at Agri-Invest and is the cornerstone behind our investment philosophy. By controlling and reducing investment costs, over time, we can add significant return to your retirement portfolio. That is why our model portfolios are comprised of low-cost index funds, which have an average investment cost about 1% lower than the industry average.

By controlling these three components of the investment process, you give yourself a much better chance of reaching your long-term goals. The main thing to remember here is that these are long-term goals, and in the process of reaching them there will be some obstacles along the way. So do your best to ignore the short-term media and quick fixes that they propose, and keep your eye on the target and goals that make up your retirement! ♦

Returns from Various Markets

The following table shows the returns from various markets over periods ending December 31, 2009:

Market/Asset Class	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
Money market	0.0%	0.2%	2.4%	3.0%	3.0%	4.1%
Bond market	-0.2%	4.5%	5.8%	4.7%	6.3%	7.0%
Large-cap stock market	6.0%	26.5%	-5.6%	0.4%	-0.9%	8.2%
Small-cap stock market	3.9%	27.2%	-6.1%	0.5%	3.5%	8.3%
International equity market	2.2%	32.5%	-5.6%	4.0%	1.6%	4.4%
Inflation	0.1%	-1.3%	2.1%	2.6%	2.6%	2.8%

Market Benchmark Portfolios

The following table shows returns from our market benchmarks over periods ending December 31, 2009:

Benchmark	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
Capital preservation	0.3%	5.0%	3.1%	3.6%	4.2%	5.6%
Conservative	1.1%	10.6%	2.0%	3.5%	4.1%	6.8%
Moderate	1.8%	16.2%	0.5%	3.3%	3.8%	7.5%
Aggressive	2.7%	20.9%	-1.9%	2.6%	2.6%	7.6%
All equity	3.8%	27.3%	-5.5%	1.5%	1.2%	7.2%

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 Management, 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.