The Lam Group
Investment Management

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The Big Picture: More Volatility, More Patience
Obviously, the equity markets have experienced a high degree of volatility in May and this has continued in June. While some of the recent decline is markets undoubtedly “cooling off” after the 14 months of strong and rebounding equity markets, we are reminded that confidence in the global financial system, whether at home or abroad, is essential to market stability.

The recent turmoil in Europe, initiated by debt problems in Greece and potentially other countries, have shaken investor confidence in the global banking system once again. While the level of these problems was unexpected, excessive leverage in the banking system is not a new or unsolvable issue.

Fortunately, the playbook for dealing with these sorts of challenges and the reaffirmation of investor confidence has been recently written for our own banking system (2008-09), but it may take additional time for the details and nuances of these processes/plays to be adequately translated into other languages.

As Yogi Berra once said: “its déjà vu all over again”. The discussion of fiscal imprudence and the pending implosion of the financial system sound hauntingly familiar. It was only 15 months ago that many investors, led by the financial media, were convinced of the inevitable failure of the equity markets and were preparing for the next Great Depression. Over the last 15 months, many “market experts” felt that interest rates were poised to rise (shorting the long bond was considered a sure thing), commercial real estate was the next nail in the coffin, and that the US dollar would plummet.

In the last 15 months, however, the S&P 500 is up over 50% and the MSCI Emerging Markets Index is up over 90%. Bond prices have strengthened as has the dollar. Domestic commercial real estate is up over 120%. So much for the predictions of media pundits and market experts.

The fact is, no one knows what the markets will do in the short-run and securities prices already reflect market fears and aspirations. If the last 21 months (the crisis + the recovery) has taught us anything, it is important not to panic during periods of high volatility. Trying to time the market and trying to pick individual securities or sectors is more likely to result in disappointing results and increased costs.

Having an established portfolio asset allocation strategy that is consistent with one’s risk/return preferences is a much more reasonable approach to volatile markets. As we have stated many times, *in practice, buying low and selling high is never easy or obvious*. Investors who remain disciplined with respect to their investment approach are likely to be rewarded over time. The equity market declines in May/June have caused our portfolios to become underweighted in stocks and overweighted in bonds. We expect to rebalance the portfolios opportunistically.

The Lam Group: Unconflicted Advice
The Congressional testimony given by Goldman Sachs employees in late April gave investors some insight into the lack of fiduciary obligations brokerage firms have to their clients.

A fiduciary obligation is a legal and ethical relationship of confidence and trust between two parties. When acting in a fiduciary capacity, the person (or firm) must place its client's interest ahead of its own.

At issue in the testimony was that Goldman did not **disclose** substantial conflicts of interest relating to the quality of a subprime mortgage investment it sold to one set of investors while at the same time helping a hedge fund client create the subprime mortgage investment with collateral they knew was impaired; in effect helping one client to harm another and profiting from the results.

As a brokerage firm, Goldman does not have a legal or fiduciary responsibility to put any of its client's interests ahead of its own. This lack of fiduciary responsibility is not unique to Goldman Sachs and is a central characteristic of all brokerage firms, large and small.

The key issue illustrated by this testimony is that fiduciary obligation and transparency are critical to getting unconflicted investment advice. The public outcry and lack of transparency in its role in the subprime mortgage market has caused the SEC to file fraud charges against Goldman, however, without having a fiduciary obligation to its clients, it is possible that Goldman did not break any laws. Nevertheless, the debate on whether Goldman did anything unethical continues in the court of public opinion.

A prudent investor should always be aware of the potential conflict of interest with regard to investment advice. If an investor is not aware whether their advisor is a fiduciary, they should ask.

It should come as no surprise that The Lam Group is **not** a brokerage firm and is structured as an independent SEC-Registered Investment Advisor. As such, our Firm offers our clients a fiduciary investment management relationship that enjoys the highest degree of transparency that is free of any conflicts of interest.

This transparency, combined with the intellectual honesty of using passively-managed institutional asset classes in our asset allocation strategy, is the foundation of our overall investment philosophy and approach.

The March 28, 2009 edition of the Wall Street Journal gives a nice overview of this important issue in The Intelligent Investor column by Jason Zweig (The Fight Over Who Will Guard Your Nest Egg; http://online.wsj.com/article/SB123819596242261401.html).

Roth IRA Conversion in 2010:
A reminder for our friends and clients who have tax-deferred assets to consider a Roth IRA conversion in 2010. As part of the Tax Increase Prevention and Reconciliation Act (TIPRA), income limits for conversions to Roth IRAs have been eliminated. While Congress passed TIPRA in 2005, the income limit repeal only took effect this year. Why should one consider converting traditional IRA assets to a Roth IRA? There are several potential benefits. Withdrawals from Roth IRAs are tax-free, as long as certain holding periods are met. Additionally, unlike traditional IRAs, Roth IRAs require no minimum distributions, allowing the money to grow tax free over potentially longer time horizons. Lastly, as taxes are already paid with Roth IRAs, the beneficiaries of Roth IRAs will owe no income taxes. Obviously, one of the biggest considerations is your ability/willingness to pay the taxes up front. Other important considerations include your investment time horizon and whether you think your federal and state tax rates will be the same or higher than the current rates when you withdraw your money.

For those who choose to convert, some elect to convert only a portion of their assets. Others prefer to convert the whole balance but do so over multiple tax years. **You should consult your tax advisor to discuss whether converting some or all of your traditional IRA assets to a Roth IRA makes sense for you**. We would be happy to discuss this issue in more detail with you and/or your tax advisor.

The Lam Group continues to focus on designing and managing balanced and globally-diversified investment portfolios. Our asset allocation approach employs a highly-analytical process to determine the appropriate combination of asset classes to build investment portfolios and strategies that realistically and optimally reflect the needs, risk tolerances, and investment horizons of our clients. The Lam Group is an independent, fee-only, SEC-registered investment advisory firm with clients in Oregon, Washington State, California, Connecticut, Maryland, New York, and New Jersey. We offer both investment management and portfolio consulting services for taxable investors, family offices, and foundations.

As our Managing Director and Chief Operating Officer, Tina Lee's efforts have allowed us greater efficiencies and as a result we have the capacity to accept a limited number of new clients in 2010. We will continue our policy of considering new clients on a referral-basis only.

Nelson J. Lam
The Lam Group, Inc.
P.O. Box 850
Lake Oswego, OR 97034
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The Lam Group
Investment Management

Asset Class Investment Results:
All portfolios constructed and managed by The Lam Group are designed for an individual client's specific risk tolerances, income requirements and investment horizon. Our investment management approach includes the design of a customized asset allocation plan, the research and selection of the most appropriate and cost-effective asset class investments for the client's specific investment policy, and the on-going monitoring and disciplined rebalancing of the aggregate portfolio to optimize return, manage risk and minimize taxes.

As different clients have different goals, risk profiles and investment horizons, it is not useful to publish a track record of specifically-managed portfolios. The investment performance data below illustrate the returns of some of the actual mutual funds utilized by The Lam Group for specific asset class allocations in the construction of investment portfolios we manage.

All data is as of 5/31/10

Equity Asset Class Category	YTD	12 Mo.	3 Year Annualized	Correlation w/ S&P 500*
Domestic Total Equity Market				
-Wilshire 5000 Index (Total US Eq. Market)	***- 0.09%***	***+23.49%***	***- 7.79%***	***+1.00***
Domestic All Cap Fund	+ 1.83%	+26.98%	- 7.68%	N/A
Domestic Large Cap Stocks				
-S&P 500 Index	***- 1.50%***	***+20.99%***	***- 8.69%***	***+1.00***
Domestic Large Cap Value Fund	+ 3.59%	+29.56%	-11.16%	+0.97
Domestic Small Cap Stocks				
-Russell 2000 Index	***+ 6.29%***	***+33.62%***	***- 6.57%***	***+0.92***
Domestic Small Cap Value Fund	+ 9.01%	+42.76%	- 8.92%	+0.91
Real Estate Investment Trusts (REITs)				
-DJ Wilshire US REIT Index	***+11.24%***	***+58.76%***	***-11.62%***	***+0.81***
Domestic REIT Fund	+11.62%	+57.79%	-11.01%	+0.81
-S&P Global REIT (ex-US)	***-10.18%***	***+20.22%***	***-20.18%***	***+0.88***
International Real Estate	- 9.75%	+19.40%	-20.84%	N/A
International Large Cap Stocks				
-MSCI EAFE Index	***-12.36%***	***+ 6.38%***	***-13.05%***	***+0.91***
International Large Cap Value Fund	-11.54%	+ 8.20%	-13.83%	+0.93
International Small Cap Stocks				
-MSCI Small Cap EAFE Index	***- 6.70%***	***+14.96%***	***-13.02%***	***+0.84***
International Small Cap Value Fund	- 7.95%	+11.86%	-12.34%	+0.87
Emerging Markets Equity				
-MSCI Emerging Markets Index	***- 6.37%***	***+19.83%***	***- 2.99%***	***+0.83***
Emerging Markets Value Fund	- 6.84%	+25.15%	- 1.25%	+0.87

Source: Morningstar, JP Morgan, PIMCO and DFA. * 5 yr correlation using monthly data

All data is as of 5/31/10

Fixed Income Asset Class Category	**YTD**	**12 Mo.**	**3 Year Annualized**	**Correlation w/ S&P 500***
Domestic Investment Grade Bonds				
-Barclays 1-3 year Govt Bond Index	***+ 1.40%***	***+ 2.21%***	***+ 4.92%***	***-0.30***
Short Duration Domestic Inv. Gr. Bond Fund	+ 2.09%	+ 4.57%	+ 5.80%	-0.02
Short Duration Domestic Muni Bond Fund	+ 0.73%	+ 2.86%	+ 3.17%	+0.06
-Barclays Aggregate Bond Index	***+ 3.71%***	***+ 8.42%***	***+ 6.89%***	***+0.21***
Domestic Investment Grade Bond Fund	+ 4.03%	+12.18%	+10.44%	-0.02
Domestic High Yield Bonds				
-Barclays High Yield Bond Index	***+ 3.23%***	***+28.79%***	***+ 5.46%***	***+0.75***
High Yield Bond Fund	+ 1.78%	+20.22%	+ 2.97%	+0.73
Inflation-Linked Bonds				
-Barclays TIPS Index	***+ 2.94%***	***+ 8.47%***	***+ 7.06%***	***+0.28***
TIPS Fund	+ 3.08%	+ 8.95%	+ 7.40%	+0.38
-Dow Jones UBS Commodities Index	***- 9.89%***	***+ 0.47%***	***- 8.88%***	***+0.47***
Commodities-Linked Fund	- 7.42%	+10.66%	- 4.78%	+0.50
International (non-US $) Bonds				
-Citigroup Non-$ World Govt Index	***- 4.93%***	***+ 0.05%***	***+ 6.81%***	***+0.20***
Non-$ Bond Fund	- 0.90%	+ 3.63%	N/A	N/A
Emerging Markets Debt				
-JP Morgan EMBI+ Index	***+ 3.30%***	***+17.11%***	***+ 6.81 %***	***+0.68***
Emerging Markets Debt Fund	+ 3.96%	+18.85%	+ 6.03%	+0.70

Source: Morningstar, JP Morgan, PIMCO and DFA. * 5 yr correlation using monthly data

Disclaimer:
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