The Lam Group
Investment Management

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The Big Picture: The Bad and the Good

A wise person once said:

Good times never last as long as you would like and bad times never last as long as you fear

The last 11 months have been a good example of this wisdom.

Table 1: Asset Class Returns for (8/31/08-2/28/09) and (2/28/09-7/31/09)

EQUITY ASSET CLASSES	The Bad Times (6 mo) 8/31/08-2/28/09	The Good Times (5 mo) 2/28/09-7/31/09
S&P 500 Index - Domestic Large Cap Stocks	-41.82%	+35.62%
Russell 2000 Index - Domestic Small Cap Stocks	-46.91%	+44.11%
MSCI EAFE Index - International Large Cap Stocks	-44.58%	+45.56%
MSCI EAFE SC Index - International Small Cap Stocks	-45.16%	+54.33%
MSCI EM Index - Emerging Markets Stocks	-47.21%	+71.69%
DJ Wilshire REIT Index - Domestic Real Estate	-61.72%	+49.84%
FIXED INCOME ASSET CLASSES	**The Bad Times (6 mo) 8/31/08-2/28/09**	**The Good Times (5 mo) 2/28/09-7/31/09**
BarCap Aggregate Bond Index - US High-Grade Bonds	+ 1.88%	+ 4.87%
BarCap High-Yield Index	-22.39%	+34.73%
BarCap TIPS Index - US TIPS	- 7.47%	+ 6.61%
DJ UBS Commodities Index - Commodities	-44.03%	+19.42%
Citigroup Non-$ World Bond Index - Non-$ Bonds	- 1.62%	+10.56%
JPM EMBI Global Bond Index - Emerging Markets Debt	-12.74%	+18.51%

The market rebound we are experiencing seems to indicate that many market participants believe the crisis in the global financial system, which began in earnest in September 2008 and reached a nadir in early 2009, may be over.

While economies worldwide still have significant challenges, the global financial system seems to have regained stability, and a more traditional relationship between risk and reward is beginning to re-emerge. However, it is likely that there will be some unintended consequences resulting from the extreme rescue measures taken to fix the system. These consequences may manifest themselves in the form of currency-based inflationary pressures as the capital markets continue to heal.

Obviously, the rally in risky asset classes over the last 5 months (plus a strong August so far) has not fully offset the effects of the global deleveraging late last year (see 11-month data on Table 2), but we are on a good trajectory and confidence in the financial system is building.

It is important to remember that investing is a long-time horizon endeavor particularly when it comes to riskier asset classes such as stocks, real estate, and commodities.

When markets are viewed in narrow time frames, such as a recent 6 months (The Bad Times: 8/31/08 to 2/28/09), or even the last 11 months (The Bad + The Good Times: 8/31/08 to 7/31/09), investing in riskier asset classes can seem apocalyptic.

However, when considered over longer time horizons such as 10 years (which include the last 11 months), investing in riskier asset classes can be gratifying or even necessary to ensure long-term portfolio purchasing power.

Table 2: Asset Class Returns for 11 month period (8/31/08-7/31/09) and 10 years thru 7/31/09

	11 Months	**10 Years**	
EQUITY ASSET CLASSES	**8/31/08-7/31/09**	**Annualized**	**Total Return**
S&P 500 Index - Domestic Large Cap Stocks	-21.10%	- 1.19%	- 11.32%
Russell 2000 Index - Domestic Small Cap Stocks	-23.49%	+ 3.61%	+ 42.57%
MSCI EAFE Index - International Large Cap Stocks	-19.33%	+ 1.77%	+ 19.15%
MSCI EAFE SC Index - International Small Cap Stocks	-15.36%	+ 5.88%	+ 77.14%
MSCI EM Index - Emerging Markets Stocks	- 9.36%	+10.50%	+171.40%
DJ Wilshire REIT Index - Domestic Real Estate	-42.64%	+ 6.95%	+ 95.83%
	11 Months	**10 Years**	
FIXED INCOME ASSET CLASSES	**8/31/08-7/31/09**	**Annualized**	**Total Return**
BarCap Aggregate Bond Index - US High-Grade Bonds	+ 6.83%	+ 6.21%	+ 82.61%
BarCap High-Yield Index	+ 4.56%	+ 5.27%	+ 67.20%
BarCap TIPS Index - US TIPS	- 1.35%	+ 7.25%	+101.42%
DJ UBS Commodities Index - Commodities	-33.16%	+ 7.37%	+103.57%
Citigroup Non-$ World Bond Index - Non-$ Bonds	+ 8.77%	+ 6.42%	+ 86.39%
JPM EMBI Global Bond Index - Emerging Markets Debt	+ 3.41%	+11.15%	+187.68%

At the same time, investing in asset classes perceived as less risky (such as investment-grade bonds) as part of an overall portfolio strategy is an essential risk management tool to dampen the volatility of the riskier asset classes over the long run. Many of these less-risky asset classes have been essential in preserving capital over short and long-term time horizons. As we expect volatility for the remainder of 2009 to remain high, the overall importance of multi-asset class diversification and disciplined portfolio rebalancing continues to be central to our investment strategy.

While it is anyone’s guess if the equity markets will rally tomorrow, it is important to remember that “picking the bottom” and “calling the top” are not part of our investment strategy. If the last 11 months have shown us anything, it is that the crash was as hard to predict as the rally. History has shown that successfully timing the market is extremely difficult to do consistently and that a balanced and globally diversified portfolio with a disciplined rebalancing strategy is central to long-term investing success.

The Lam Group: Necessity is the Mother of Invention

While the global financial system crisis seems to be over, the economy in many areas remains weak, particularly with respect to unemployment and residential housing inventory. Commercial real estate is also struggling with increasing vacancies and looming refinancing challenges.

Many pundits, particularly those in the media, feel that these two issues will delay any meaningful economic recovery and will cause the current recession to last longer than expected.

While the immediate outlook for the unemployed and the commercial vacancies seems gloomy, there may be a silver lining. Over the last year, while the cost of financial capital has risen, the cost of human capital has become more affordable and office/warehouse/industrial rents have never been more negotiable.

With the dramatic increase in availability of experienced, highly-qualified, and financially-motivated workers, professionals and executives, and the cost of securing commercial space no longer prohibitive, it is possible that we will see a renaissance of entrepreneurial activity that will positively impact economies in our country and around the world.

With the urgency that unemployment and vacancy can bring, the necessity of new ideas, unique approaches, and the innovative application of improving technology will spawn new businesses and new business models which will change, enhance, and improve the economy from what we know today. Historically, small business has been the engine for job creation and economic recovery.

The Lam Group is an independent, fee-only, SEC-registered investment advisory firm with clients in Oregon, Washington State, California, Connecticut, New York, and New Jersey. We offer both investment management and portfolio consulting services for taxable investors, family offices, and foundations.

Our Firm has been structured to provide our clients with an investment management relationship that enjoys the highest degree of transparency and avoids any conflicts of interest. This transparency, combined with the intellectual honesty of using passively-managed asset classes in our asset allocation strategy, is the foundation of our overall investment philosophy and approach.

We continue our policy of considering new clients on a referral-basis only.

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Archives for The Lam Group Newsletter are available at our website: www.thelamgroup.com

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 07/31/09

Equity Asset Class Category	July 2009 YTD	12 Mo	3 Year Annualized	Correlation w/ S&P 500*
Domestic Total Equity Market				
-Wilshire 5000 Index (Total US Eq. Market)	*+13.20%*	*-19.67%*	*- 5.55%*	*+1.00*
US Total Market Fund	+12.74%	-19.79%	- 5.51%	+1.00
Domestic Large Cap Stocks				
-S&P 500 Index	*+10.97%*	*-19.96%*	*- 6.16%*	*+1.00*
Domestic Large Cap Value Fund	+12.53%	-24.68%	- 9.93%	+0.97
Domestic Small Cap Stocks				
-Russell 2000 Index	*+12.53%*	*-20.72%*	*- 6.05%*	*+0.93*
Domestic Small Cap Value Fund	+16.16%	-19.69%	- 9.36%	+0.91
Real Estate Investment Trusts (REITs)				
-Wilshire REIT Index	*- 4.09%*	*-41.35%*	*-18.00%*	*+0.80*
REIT Fund	- 2.92%	-38.84%	-17.14%	+0.80
International Real Estate	+15.27%	-30.91%	N/A	N/A
International Large Cap Stocks				
-MSCI EAFE Index	*+17.81%*	*-22.60%*	*- 5.57%*	*+0.91*
International Large Cap Value Fund	+25.59%	-19.71%	- 4.43%	+0.93
International Small Cap Stocks				
-MSCI Small Cap EAFE Index	*+30.70%*	*-18.94%*	*- 6.79%*	*+0.84*
International Small Cap Value Fund	+25.07%	-16.47%	- 4.08%	+0.86
Emerging Markets Equity				
-MSCI Emerging Markets Free Index	*+48.85%*	*-18.99%*	*+ 3.75%*	*+0.84*
Emerging Markets Value Fund	+60.32%	-13.29%	+ 9.89%	+0.87

* 5 yr correlation using monthly data

All data is as of 07/31/09

Fixed Income Asset Class Category	**July 2009 YTD**	**12 Mo**	**3 Year Annualized**	**Correlation w/ S&P 500***
Domestic Investment Grade Bonds				
-Barclays 1-3 year Govt Bond Index	*+ 0.67%*	*+ 4.77%*	*+ 5.55%*	*-0.30*
Short Duration Domestic Inv. Gr. Bond Fund	+ 1.37%	+ 3.71%	+ 4.25 %	-0.00
Short Duration Domestic Muni Bond Fund	+ 2.59%	+ 4.28%	+ 3.53%	+0.07
-Barclays Aggregate Bond Index	*+ 3.54%*	*+ 7.85%*	*+ 6.52%*	*+0.23*
Domestic Investment Grade Bond Fund	+ 8.68%	+11.57%	+ 8.66%	+0.26
Domestic High Yield Bonds				
-Barclays High Yield Bond Index	*+38.37%*	*+ 4.93%*	*+ 3.78%*	*+0.77*
High Yield Bond Fund	+26.69%	+ 3.02%	+ 2.64%	+0.74
Inflation-Linked Bonds				
-Barclays TIPS Index	*+ 6.29%*	*- 0.54%*	*+ 5.23%*	*+0.28*
- Dow Jones UBS Commodities Index	*+ 8.00%*	*-38.03%*	*- 8.29%*	*+0.39*
TIPS Fund	+ 5.44%	- 1.05%	N/A	N/A
Commodities-Linked Fund	+19.81%	-40.58%	- 7.72%	+0.46
International (non-US $) Bonds				
-Citigroup Non-$ World Govt Index	*+ 1.05%*	*+ 5.62%*	*+ 8.43%*	*+0.21*
Non-$ Bond Fund	+ 4.96%	+ 2.28%	+ 6.92%	+0.35
Emerging Markets Debt				
-JP Morgan EMBI+ Index	*+18.10%*	*+ 4.26%*	*+ 6.20 %*	*+0.70*
Emerging Markets Debt Fund	+19.69%	+ 2.40%	+ 5.16%	+0.67

* 5 yr correlation using monthly data

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