



CLARITY ~ SIMPLICITY ~ INDEPENDENCE

November 2009 Newsletter

Even after we have reached the end of October (as of 10/26/09) the “October Effect” has not happened; October has been the worst returns month over the past 30+ years in US Equity Markets. The last two quarter’s equity returns were as impressive going up as they were going down. This may have made you feel better when you saw your September statements, but from where Pete and I sit, a year-end pullback is more likely than much more upside.

So how did the quarter go? It is tempting to breathe a sigh of relief and assume that we have emerged from the worst financial crisis in decades and can now get on with our investing lives. However, a little perspective may restore some caution. The one-year return for the S&P 500 (through September 30, 2009) was *down* 6.91 %, and we closed the quarter approximately 29% *off* the October 2007 highs.

The market rally that began in mid-March, driving double digit equity returns in the second quarter, continued throughout the third quarter of 2009. Despite some volatility at the close of the three-month period ending September 30, 2009, the S&P 500 Index gained another 15.61%<sup>1</sup>. International returns were just as strong, with currency gains giving U.S. investors an additional boost. The MSCI EAFE international index saw a 19.52% return and emerging markets tallied 21.04% according to the MSCI Emerging Markets index for the period. So returns in equities for the quarter all depends on what % our offensive managers (relative) and defensive managers (absolute) had in each asset class - small, mid, large, bonds and international.

How strong has the rally been? From the March 9 low through the end of the third quarter, the S&P 500 Index returned a remarkable 58.25%. Will we stay flat here, continue up or back down?

After meeting, listening and reading reports from our investment managers and economists over the last two weeks, the “Great Recession” (not Depression) may have slowed but the economy is still very weak and with real unemployment at 17% (this included those who have stopped looking for jobs or are in jobs outside of their field of expertise) and tight credit markets (350% of the GDP is made up of personal leverage), we believe Wall Street, investor, and some media optimism is premature when considering the bond markets real earnings are premature and not as realistic when major cost and price cutting (i.e. employees and production) was the catalyst. When we see real earnings followed by increased sales and production with new jobs you can say we are out of a recession.

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<sup>1</sup> All returns sourced from Bloomberg Finance L.P.

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We will continue to try to protect your portfolios as we reallocate portfolios from more market-dependent stock and bond strategies to more defensive strategies historically more successful at weathering sustained volatility without foregoing reasonable long-term returns. Meanwhile, we will also seek to capitalize on oversold sectors outside of the stock and bond markets that help to create enhanced income-oriented total return for those clients seeking greater principal stability, income, and growth...such as domestic natural gas partnerships, high-quality, undervalued, income-producing commercial real estate, high-income collateralized loan portfolios, managed futures, and income-protected variable annuity portfolios.

We agree with most of the economists and absolute return strategists that this recent cyclical bull equities market from the bottom (March 16<sup>th</sup>) will not continue and will lose more steam (as it already has) and may give back more of the gains moving forward this quarter and next. Remember, we are in a secular bear market (long term) and we need to have very modest expectations of any long term bull market in our near future. So, we will take these come backs but don't forget what we have said over and over "Great Defenses win the game more than offenses" and even though this is not a game it is a way we view the protection of your hard-earned savings.

Thank you as always, for your continuing trust and confidence.

Sincerely,



Thomas K. Ambrose



Peter Blok

*This document contains forward looking statements and opinions. These statements are believed to be reasonable, but we cannot give any assurances that these expectations will prove to be correct. Some of the above commentary was provided to us from Genworth Financial Trust Company. Genworth Financial Trust Company and H. Beck, Inc. are not affiliated. Past performance is not indicative of future results*

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