Compensation & Capital's
Perspectives on Financial Planning in the Wake of Turbulent Markets as of March 31, 2010

People contemplating personal finance normally relate the term "diversification" with portfolio design that seeks to manage risk with lots of different investments. "Risk" in this sense means volatility; diversification can help stabilize the value of a portfolio within a certain acceptable range. Prior quarters' *Participant Quarterly Reports* have detailed the why's, how's, and when's of *portfolio* diversification. Financial market cycles throughout history have demonstrated its strengths.

But the broader *concept* of diversification – simply put: not putting all your eggs in one basket - can be productively applied to other personal financial planning decisions we make every day. In each of these examples, diversification reduces the risk of an undesirable outcome but can also reduce the probability of a very desirable one. It's all in the name of stabiliizng progress toward your goals.

<u>Managing your career and core competencies</u>: Though specialization is often an avenue to higher pay, overly focusing your professional capabilities also enhances the probability that your specialty becomes obsolete. Conversely, broadened skill sets and professional reinvention stabilize employability throughout your career and thereby diversify your personal capital.

<u>Managing your marital income sources</u>: Dual income households are in a unique position to enhance a couple's income stability. Despite the lure of a home-based business partnered by both spouses, in most cases couples employed by unrelated businesses diversify the household's income flow against employer-based risk. Losing one of dual household incomes can be manageable; losing both can be devastating.

<u>Uncertainty over insurable risks</u>: Insurance is one of the purest forms of diversification. It requires that we accept a premium expense as a small known cost to prevent a far larger and possibly devastating loss. Households are often faced with difficult decisions over what risks to insure and/or how much insurance to buy (more insurance = higher premiums.) By diversifying your "insurable risk portfolio" of accepted versus insured risks, you can strike a balance between foregone current savings spent on premiums and fear of unbearable financial loss.

<u>Income replacement in retirement</u>: Most retirees will attempt to replace paycheck income with Social Security benefits, distributions from 401(k) plans and after-tax investment portfolios, annuitized savings, reverse mortgages, or part-time work. The more diversified the income sources driving their paycheck replacement in retirement, the more stable their flow of inflation-adjusted income. Long range planning to strike a balance between the accumulation of values in each income source is vital. Which leads to…

<u>Managing the equity in your home</u>: A popular reaction to the concurrent housing and financial crises has been for homeowners to accelerate their mortgage repayments. Paying down your mortgage is akin to investing your disposable income in residential real estate. Historically speaking, housing has been a low-return asset relative to financial securities when held for long periods. It may *feel* better to be paying down your mortgage than adding to your stock holdings in times of fiscal uncertainty. But don't let your emotions get in the way of maintaining an appropriate diversification between low risk / low return savings like your home's equity, and higher risk / higher return savings like your 401(k) account. Both have value in retirement (see the preceding paragraph) but the 401(k) can have more growth potential and is far more liquid than the home equity.

The key to successfully applying diversification to reduce the risk of any occurrence is balancing its offset to future returns against the comfort of an avoided risk. Quite simply, it's all about finding the happy medium between returns foregone and the losses avoided that ensures you achieve your financial goals while still getting a good night's rest.

Dechert-Hampe & Company Employees' Savings and Profit Sharing Plan

Compensation & Capital's
Recent and Future Performance of Financial Markets and Actionable Recommendations

With the Dow Jones Industrial Average scoring its best first quarter performance (up 4.8%) since 1999, and both the Dow and the S&P500 hitting 18 month highs, many investors continue to harbor skepticism over the stock market's recovery and remain gloomy about the global economy. No doubt, emotional scars borne of concurrent financial and housing market meltdowns and economic crises will remain in the hearts and souls of many savers for years to come. But others, those who over the past decade or two have adopted the tenets of regimented long-term investing using appropriately diversified asset allocation, annual rebalancing, and dollar-cost averaging have gained even further insight into what works when it comes to true investing for the long haul.

The stability of the vast majority of participant's allocations to stocks in the face of 30% to 60% declines in their account values from October, 2007 to March, 2009 deserves congratulations. Many Plan participants even stuck to their annual rebalancing regimen sometime during the crisis. That process forced them (in the face of dramatic emotional duress) to re-allocate account balances from bonds and money markets into drastically depressed stocks, thereby ultimately exaggerating their gains from the stock market's recent rally.

401(k) savers have further benefited by the 401(k) regimen of payroll contribution purchases of stocks regardless of the market conditions. Consider the fact that stocks purchased with contributions last March are, in many funds, worth 60% more now than they were at the time of original purchase. That equates to a contribution of $100 growing to $160 after only one year's time! This vivid demonstration of the veracity of "Dollar Cost Averaging" is a financial planning educator's dream come true.

Globally, economists just announced consensus projected growth of the global economy at 4.2% over the coming 12 months; a comfortable positive that would mute inflation concerns while providing steady economic growth. And here at home, the Treasury's TARP plan seems to have worked well both as an engine for liquidity at the height of the crisis as well as a value investment on behalf of taxpayers. GM's announcement today that it has repaid Treasury its TARP loan with interest well ahead of schedule gives new hope to the stock side of the auto maker's taxpayer bail-out.

With all this good news, there's also plenty that's discomforting. Many participants with originally large balances relative to their ongoing contributions going into the sell-off remain upwards of 15% below their pre-slump account balances (that is, excluding contributions added over the past 18 months.) That account deficit will require gains of over 20% from current levels to regain parity with their late 2007 account highs – upside performance which at historical average annual levels would normally take more than two years to attain.

Several other economic issues also continue to give investors pause. Unemployment remains stubbornly high. And though the housing market is showing signs of stabilization, prices in most regions have leveled out 15% to 30% below pre-crisis. Jitters over the ability of governments to repay their debts and pay their ongoing bills heightens concern that another financial crisis could loom. And central banks the world over, including the U.S. Fed, are cautiously poised over their monetary "brakes" should inflation start gaining traction on the heels of economic growth.

But we have seen what works in retirement saving and investing. In short, as with most business decisions, successful investing comes from investment plans founded in time-tested principles then rigorously and <u>un</u>emotionally executed.

Dechert-Hampe & Co Employees' Savings and Profit Sharing Plan
Vanguard Select Funds Performance Specifics and Comparatives
(All for periods ended March 31, 2010)

Remember: **Past performance is absolutely NOT a guarantee of future performance!**

NAME AND TICKER OF VANGUARD SELECT FUND / *Morningstar Category Name*	Securities Type(s)	Morningstar™ Category Percentile Ranking Past 5 Years	Morningstar™ Category Percentile Ranking Past 10 Years	Cumulative Total Return Performances for: 1 Qtr	Cumulative Total Return Performances for: YTD-2010	Cumulative Total Return Performances for: 12 Mos	Average Annualized Total Returns for: 3 Yrs	Average Annualized Total Returns for: 5 Yrs	Average Annualized Total Returns for: 10 Yrs
PRIME MONEY MARKET - VMMXX	Money Market	**10th**	**8th**	**0.0%**	**0.0%**	**0.2%**	**2.4%**	**3.1%**	**2.9%**
Money Market Funds >>		*Category Average >>*		*0.0%*	*0.0%*	*0.1%*	*1.9%*	*2.7%*	*2.5%*
TOTAL BOND MARKET - SIGNAL SHARES -VBTSX	**Bonds**	**30th**	**32nd**	**1.8%**	**1.8%**	**7.5%**	**6.2%**	**5.4%**	**6.0%**
Intermediate Bond Funds >>		*Category Average >>*		*2.4%*	*2.4%*	*16.8%*	*4.8%*	*4.5%*	*5.6%*
INFLATION PROTECTED SECURITIES - VIPSX	**Gov't Bonds**	**35th**	**n/a**	**0.4%**	**0.4%**	**5.7%**	**5.6%**	**4.5%**	**n/a**
Inflation-Protected Bond Funds >>		*Category Average >>*		*0.6%*	*0.6%*	*7.4%*	*4.8%*	*3.9%*	*6.2%*
WELLINGTON – ADMIRAL SHARES - VWENX	**Bonds & Stocks**	**4th**	**2nd**	**3.7%**	**3.7%**	**36.5%**	**1.9%**	**5.8%**	**6.8%**
Moderate Allocation Funds >>		*Category Average >>*		*3.8%*	*3.8%*	*37.2%*	*-1.1%*	*3.2%*	*2.5%*
500 INDEX – SIGNAL SHARES - VIFSX	**Stocks**	**45th**	**56th**	**5.4%**	**5.4%**	**49.9%**	**-4.1%**	**1.9%**	**-0.7%**
Large-Cap U.S. Blend Stock Funds >>		*Category Average >>*		*5.1%*	*5.1%*	*50.1%*	*-4.4%*	*1.8%*	*0.2%*
WINDSOR II – ADMIRAL SHARES - VWNAX	**Stocks**	**32nd**	**22nd**	**6.0%**	**6.0%**	**54.7%**	**-4.9%**	**2.0%**	**4.9%**
Large-Cap U.S. Value Stock Funds >>		*Category Average >>*		*5.6%*	*5.6%*	*50.3%*	*-6.0%*	*1.2%*	*3.1%*
SELECTED VALUE - VASVX	**Stocks**	**37th**	**22nd**	**7.7%**	**7.7%**	**61.2%**	**-3.2%**	**3.8%**	**9.3%**
Mid-Cap U.S. Value Stock Funds >>		*Category Average >>*		*8.3%*	*8.3%*	*65.8%*	*-4.0%*	*3.3%*	*7.4%*
MORGAN GROWTH – ADMIRAL SHARES - VMRAX	**Stocks**	**35th**	**28th**	**5.2%**	**5.2%**	**49.9%**	**-2.6%**	**3.5%**	**-0.9%**
Large-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*4.4%*	*4.4%*	*48.3%*	*-1.9%*	*2.9%*	*-2.5%*
MID CAP GROWTH - VMGRX	**Stocks**	**36th**	**51st**	**5.4%**	**5.4%**	**51.4%**	**-1.2%**	**5.2%**	**-0.6%**
Mid-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*6.8%*	*6.8%*	*55.4%*	*-2.3%*	*3.9%*	*-0.5%*
EXPLORER - VEXRX	**Stocks**	**51st**	**24th**	**8.6%**	**8.6%**	**60.3%**	**-3.6%**	**2.9%**	**2.8%**
Small-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*7.4%*	*7.4%*	*59.0%*	*-3.5%*	*3.0%*	*-0.0%*
INTERNATIONAL GROWTH - VWILX	**Stocks**	**16th**	**22nd**	**2.6%**	**2.6%**	**62.1%**	**-3.2%**	**6.4%**	**2.3%**
Foreign Large-Cap Blend Stock Funds >>		*Category Average >>*		*1.3%*	*1.3%*	*53.3%*	*-6.8%*	*3.9%*	*0.5%*
ENERGY– VGENX	**Stocks**	**24th**	**21st**	**-0.5%**	**-0.5%**	**45.1%**	**1.5%**	**10.2%**	**14.9%**
Equity Energy Sector Stock Funds >>		*Category Average >>*		*0.5%*	*0.5%*	*54.4%*	*-0.9%*	*8.1%*	*11.6%*
EMERGING MARKETS STOCK INDEX - VEIEX	**Stocks**	**25th**	**30th**	**2.5%**	**2.5%**	**80.2%**	**5.0%**	**14.8%**	**10.4%**
Diversified Emerging Markets Stock Funds >>		*Category Average >>*		*2.8%*	*2.8%*	*81.6%*	*2.2%*	*13.5%*	*9.0%*