Compensation & Capital's
Domestic Economics and Financial Planning Commentary as of December 31, 2009

You may have caught a sound-bite or two from the recent first hearing of the Financial Crisis Inquiry Commission. Mandated by Congress last summer to investigate the events that led to the monumental 2008 collapse of the financial markets, the Commission is to issue its report by the end of 2010 with a series of conclusions about what occurred, and recommendations as to how to avoid future market meltdowns.

As the American public's current sense of anxiety and cynicism regarding anything "Wall Street" reaches a crescendo, it diverts attention from all the other actors (industry, governments – both domestic and foreign, and citizens) in this great tragedy. And all the while, the gulf of accountability that ordinary Americans apply to ourselves versus the institutions that we have created grows wider.

At its core, the ethical footing upon which we all "play the game" *should* be the same. We should all manage our lives with an eye to prudence for both our individual and the collective good. But that utopian mission loses focus through the filter of human nature when faced with conflicts of interest and mitigating circumstances. And just as Wall Street bankers diverted their attention from their civic mission to that of their shareholders and their bonus arrangements, just as our elected officials and their appointed administrators lost track of their responsibility to the common good in deference to their lobbyists, so too did many American families allow their eyes (that is their appetites for easy money) to become far too big for their stomachs (their acceptance of appropriate risk.)

This chapter of the age-old human conflict between fear and greed could have been far less debilitating if more of us would just have kept in mind the old adage: "If it looks too good to be true, it probably is." Americans spanning the demographics and acting in both their individual as well as their institutional roles were guilty of this lapse of logic:

- Some mortgage brokers, abetted by relaxed government regulations, definitely lured unsuspecting would-be homeowners into ultimately unaffordable home ownership.
- Some financial advisors, motivated by skewed commission structures, sold idealistic clients securities with far more risk and far less liquidity than the advisors disclosed.
- Some 401(k) plans, motivated by lower direct employer costs, provided many of the tools (emphasis on employer stock, overly risky target-date funds, high-fee mutual fund options, self-serving advice) necessary for unwary participants to set themselves up for disastrous outcomes.
- And some bankers allowed families to degrade their personal balance sheets with unsubstantiated home equity lines bloated by unquestioning optimism that the cash would just keep on coming.

Just as the report from the 9/11 Commission made for interesting reading, this Commission's report is sure to be enlightening in terms of ways that we collectively squandered our opportunities to avert it. But any of us that have thought through the roots of the crisis already have first-hand knowledge of its cause, as well as a few core ways to lessen its chances for recurrence.

- Live well within your means. Save first, then spend. Maintain liquidity (an 'emergency fund'.)
- Accept levels of investment risk only as appropriate to your investment objective's time horizon. If you can't afford to lose some of the investment, don't risk it trying to 'goose' its returns.
- Don't make promises you can't keep. Don't allow people with self-vested interests to talk you into something you know in your heart-of-hearts can't be true.

Now all we have to do to prevent another crisis is get all our friends, family, employers, governments and institutions on this same plan!

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

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

In 2009, the gloom of the first quarter gave way to euphoria in the financial markets in the last three quarters, as investors rejoiced that we had avoided a depression. Instead, we experienced the so-called Great Recession. In fact, from the perspective of decline in GDP, this recent "Great" recession was roughly on par with the severe recessions of the early 70s and early 80s, with aggregate GDP dropping about 4% from peak to trough. But there were distinct and likely lasting differences too. *This* recession leaves us with very high and persistent unemployment, consumers de-leveraging from enormous levels of debt and re-acquainting with the benefits of saving, bank lending largely on hold, and housing a strong drag on any potential for economic rebound.

All the while, the stock market seems to have de-coupled from concern over these economic risks. Obviously, drastic cost cutting by corporations has benefited profits and a 25%+ "cushion" from the market's late 2007 highs certainly seems to be keeping investors comfortable with driving the stock market higher. But we must remain very cognizant of the dramatic increases in stock market values we have witnessed since last March, virtually without correction. Investors' current complacency can swiftly be replaced by fear arising from unexpected events beyond their control.

As investment advisors, this is always an interesting time of year as all of the investment houses publish their predictions or "expected surprises" for the period ahead. It is hard to remember a time when the prognostications have been so widely disparate – opinions ranging from strong economic growth to a return to recession, from raging inflation to deflation and from new bull markets to a retest of the lows of last March. All are well-reasoned and based on trends in the economic data being broadly disseminated. The one thing that virtually all agree upon is that the actions of the Federal government will continue to have an unusually large impact on the economy and the financial markets. [Last quarter's *Commentary* highlighted this particular dynamic of the central banks' monetary policy upon economic stability.] And, as a result, the risk of adverse or unintended consequences remains high.

As 2010 progresses, there is a wide range of variables that could have unexpected impacts on the global economy and financial markets. These include: withdrawal of US monetary and fiscal stimulus, demand for the large supply of U.S. government debt, ever-present geopolitical risks in the Middle East, actions of Congress on health care, tax policy and financial regulation, sovereign debt problems in southern Europe and terrorist activity, just to name a few. With the economy growing very slowly, an unexpected setback could easily trip the economy back into negative growth territory.

Finally, given investors' voracious appetite over the past 2+years for high-quality government and corporate bonds, a few words of caution lest these normally sanguine investments awaken us with a sudden bad surprise. A few minutes with our performance chart on the following page comparing the Select Fund's two bond funds' 1-Year returns (Wow!) with their 5-Year stats (still quite impressive compared to other more "normal" historical periods) leads to the conclusion that "something" has been recently out of balance. Now focus on the current quarter's returns for these two funds and you will see how dramatically balance is being restored to the bond market. These observations are NOT intended to steer our readers to/from any asset class (stocks, bonds, etc.) Retirement objectives are met over many years of maintaining a balanced strategy that slowly evolves with your needs for liquidity. Don't ever chase returns regardless of where they may be.

As always, but even more so in these seemingly comfortable but truly perilous times, this is a time to stay well diversified and within your appropriate risk profile while you continue to contribute to your retirement plan savings.

Dechert-Hampe & Co Employees' Savings and Profit Sharing Plan
Vanguard Select Funds Performance Specifics and Comparatives

(All for periods ended December 31, 2009)

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	10 Years	Cumulative Total Return Performances for: 1 Qtr	YTD-2009	12 Mos	Average Annualized Total Returns for: 3 Yrs	5 Yrs	10 Yrs
Prime Money Market - VMMXX	Money Market	**8th**	**9th**	**0.0%**	**0.5%**	**0.5%**	**2.8%**	**3.3%**	**3.0%**
Money Market Funds >>		*Category Average >>*		*0.0%*	*0.2%*	*0.2%*	*2.3%*	*2.8%*	*2.6%*
Total Bond Market - Signal shares -VBTSX	**Bonds**	**25th**	**25th**	**0.1%**	**6.0%**	**6.0%**	**6.1%**	**5.0%**	**6.1%**
Intermediate Bond Funds >>		*Category Average >>*		*1.2%*	*14.0%*	*14.0%*	*4.5%*	*3.8%*	*5.5%*
Inflation Protected Securities - VIPSX	**Gov't Bonds**	**28th**	**n/a**	**1.9%**	**10.8%**	**10.8%**	**6.3%**	**4.4%**	**n/a**
Inflation-Protected Bond Funds >>		*Category Average >>*		*1.7%*	*10.9%*	*10.9%*	*5.3%*	*6.7%*	*6.4%*
Wellington – Admiral shares - VWENX	**Bonds & Stocks**	**2nd**	**3rd**	**4.4%**	**22.3%**	**22.3%**	**1.1%**	**4.9%**	**6.3%**
Moderate Allocation Funds >>		*Category Average >>*		*3.8%*	*24.1%*	*24.1%*	*-2.0%*	*2.0%*	*2.3%*
500 Index – Signal shares - VIFSX	**Stocks**	**49th**	**58th**	**6.1%**	**26.6%**	**26.6%**	**-5.6%**	**0.4%**	**-1.0%**
Large-Cap U.S. Blend Stock Funds >>		*Category Average >>*		*5.5%*	*28.2%*	*28.2%*	*-5.5%*	*0.5%*	*0.0%*
Windsor II – Admiral Shares - VWNAX	**Stocks**	**31st**	**23rd**	**6.6%**	**27.2%**	**27.2%**	**-6.2%**	**0.9%**	**4.3%**
Large-Cap U.S. Value Stock Funds >>		*Category Average >>*		*4.8%*	*24.1%*	*24.1%*	*-7.3%*	*0.2%*	*2.5%*
Selected Value - VASVX	**Stocks**	**22nd**	**20th**	**6.4%**	**36.3%**	**36.3%**	**-4.3%**	**2.9%**	**8.7%**
Mid-Cap U.S. Value Stock Funds >>		*Category Average >>*		*5.2%*	*35.4%*	*35.4%*	*-5.4%*	*1.4%*	*6.9%*
Morgan Growth – Admiral Shares - VMRAX	**Stocks**	**38th**	**30th**	**7.4%**	**36.3%**	**36.3%**	**-3.8%**	**1.6%**	**-0.7%**
Large-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*6.7%*	*35.7%*	*35.7%*	*-2.9%*	*1.2%*	*-2.1%*
Mid Cap Growth - VMGRX	**Stocks**	**30th**	**41st**	**6.2%**	**38.4%**	**38.4%**	**-1.4%**	**3.4%**	**1.2%**
Mid-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*5.7%*	*39.1%*	*39.1%*	*-3.1%*	*1.8%*	*0.3%*
Explorer - VEXRX	**Stocks**	**46th**	**22nd**	**4.6%**	**36.5%**	**36.5%**	**-5.0%**	**0.6%**	**3.5%**
Small-Cap U.S. Growth Stock Funds >>		*Category Average >>*		*4.8%*	*35.5%*	*35.5%*	*-4.9%*	*0.4%*	*0.6%*
International Growth - VWILX	**Stocks**	**18th**	**17th**	**4.3%**	**41.9%**	**41.9%**	**-3.1%**	**-5.8%**	**2.6%**
Foreign Large-Cap Blend Stock Funds >>		*Category Average >>*		*2.6%*	*31.2%*	*31.2%*	*-6.2%*	*3.6%*	*0.6%*
Energy– VGENX	**Stocks**	**16th**	**26th**	**5.8%**	**38.4%**	**38.4%**	**2.7%**	**13.4%**	**16.3%**
Equity Energy Sector Stock Funds >>		*Category Average >>*		5.5%	*44.4%*	*44.4%*	*0.4%*	*10.4%*	*13.1%*
Emerging Markets Stock Index - VEIEX	**Stocks**	**24th**	**32nd**	**8.2%**	**76.0%**	**76.0%**	**4.9%**	**14.5%**	**9.8%**
Diversified Emerging Markets Stock Funds >>		*Category Average >>*		*7.6%*	*73.8%*	*73.8%*	*2.2%*	*13.2%*	*9.0%*