

April 12, 2010

Dear Friend,

What a difference a year makes.

Recently one of our clients commented that they were surprised at how quickly our last market downturn has faded into the past. Though it has been a year since our March 9th 2009 bottom, because of its severity, it is understandable that not all investors share this perspective. It is interesting, however, to consider how our short-term memories can affect us and our outlook.

The topic of Behavioral Finance is always rather interesting when one considers the impact of our decisions. Of the biases we find in this field one is called Extrapolation Bias. Webster's dictionary describes extrapolation as inferring or projecting from current data or observations into an area unknown or experienced. In behavioral finance it translates into the tendency to believe what we are currently experiencing as the most likely thing to happen in the future. So when times are good investors tend to take on more risk as it appears good times will continue, and when times are tough investors are likely to want to minimize risk as it seems that bad times will last for awhile.

What makes extrapolating dangerous is that the sources of information we use to reach our opinions about the future are not always objective or meaningful, and this can lead to potentially harmful financial decisions and outcomes. The following excerpt from a presentation by Steve Forbes, Publisher of Forbes Magazine, at the Anderson School, University of California, Los Angeles on April 15, 2003 reminds us to be a skeptic when absorbing information.

*"You make more money selling advice than following it. It's one of the things we count on in the magazine business - along with the short memory of our readers."*

Try as we might to control the media sources we are exposed to, it is difficult to control what our friends and neighbors see and hear and not be impacted by their extrapolations. Speculations regarding the future direction of the market as a result of the deficit, inflation, taxes, wars, etc. (insert your own here) run rampant, especially in down markets. Not all extrapolations are the same. One person's experience with respect to media exposure and their own personal history will likely differ tremendously from another. Thus we see the overwhelming daily difference of opinion from the masses. Despite the incredible amount of available information and the myriad of varying opinions about that information there remains one constant, the historical record.

The attached spreadsheet demonstrates a hypothetical \$100,000 portfolio invested in US and international stocks with a 65-35 percent mix respectively including large and small companies. Also displayed is the blended rate of return for that specific year. As you can see, even after the awful bear markets of 73/74, 2000-02, and 2008 an investor averaged a hypothetical 10.59% annually. Also included, for your amusement, are a few quotes from respectable sources around the spring of 2009. Even the so-called experts can fall prey to extrapolation. With the pundits opining about the dire future of the market and the economy, it's no wonder that we tend to get a little nervous at times. But, it's just a matter of time before each moment to becomes history.

Though market highs are still in our future and we are well into 2010, it appears that some investors are beginning to see the awful market is now behind us and the calendar year 2008 is beginning to look like just another red number among many green ones.

As always, please contact us with any financial questions or concerns.

Arcadia Investment Advisors, LLC

| Blended Equity Portfolio |                        |                         |
|--------------------------|------------------------|-------------------------|
| Year                     | Blended Rate of Return | Investment of \$100,000 |
| 1973                     | -16.94                 | \$83,060.50             |
| 1974                     | -23.98                 | \$63,142.59             |
| 1975                     | 39.52                  | \$88,098.44             |
| 1976                     | 21.88                  | \$107,375.26            |
| 1977                     | 7.02                   | \$114,917.30            |
| 1978                     | 18.81                  | \$136,532.09            |
| 1979                     | 17.99                  | \$161,090.12            |
| 1980                     | 30.78                  | \$210,677.68            |
| 1981                     | -0.74                  | \$209,121.83            |
| 1982                     | 14.68                  | \$239,811.50            |
| 1983                     | 25.84                  | \$301,788.39            |
| 1984                     | 4.89                   | \$316,532.26            |
| 1985                     | 39.42                  | \$441,296.61            |
| 1986                     | 34.84                  | \$595,050.97            |
| 1987                     | 9.96                   | \$654,291.27            |
| 1988                     | 21.74                  | \$796,547.28            |
| 1989                     | 21.15                  | \$965,032.96            |
| 1990                     | -12.90                 | \$840,505.11            |
| 1991                     | 26.30                  | \$1,061,595.78          |
| 1992                     | 3.17                   | \$1,095,195.28          |
| 1993                     | 19.72                  | \$1,311,123.98          |
| 1994                     | 3.95                   | \$1,362,880.60          |
| 1995                     | 28.00                  | \$1,744,507.62          |
| 1996                     | 16.35                  | \$2,029,717.17          |
| 1997                     | 20.82                  | \$2,452,263.69          |
| 1998                     | 20.31                  | \$2,950,293.92          |
| 1999                     | 24.54                  | \$3,674,399.30          |
| 2000                     | -9.97                  | \$3,307,896.35          |
| 2001                     | -9.95                  | \$2,978,661.42          |
| 2002                     | -18.52                 | \$2,426,923.97          |
| 2003                     | 37.15                  | \$3,328,635.43          |
| 2004                     | 15.44                  | \$3,842,693.25          |
| 2005                     | 8.22                   | \$4,158,389.71          |
| 2006                     | 19.72                  | \$4,978,486.54          |
| 2007                     | 6.03                   | \$5,278,813.74          |
| 2008                     | -39.08                 | \$3,215,906.12          |
| 2009                     | 28.80                  | \$4,142,087.08          |
| <b>TOTAL RETURN</b>      |                        | <b>10.59%</b>           |

Sources: Large Co. & Small Co. - Ibbotson SBBI 2009 Yearbook by Morningstar; International - MSCI EAFE  
Blend: 50% Large Company, 15% Small Company, 35% International

*"Don't be fooled by bear market rallies. It's way too early to get back into U.S. stocks...Expect meltdowns in securities backed by credit card debt, home equity, student and auto loans as well as commercial real estate.... Avoid emerging markets, especially China. China's fiscal bailout contains lots of smoke and mirrors, and social unrest is mounting."*

Gary A. Shilling, Forbes, February 16, 2009

*"Some optimistic experts are now saying that though this will be a turbulent year for global markets, the worst of the financial crisis is behind us. Would it were so. We believe that 2009 will be tougher than many anticipate....The world's first global recession is just getting started."*

Ian Bremmer & Nouriel Roubini, Wall Street Journal, January 23, 2009

*"The economy's green shoots have stopped growing....Stocks can't ignore the economy just yet. The data suggest still more bank losses, more uncertainty about government intervention and a longer recovery process than the consensus expects. 'We don't have a business-cycle recovery in sight....You can't rule out a 2010 recovery, but we have no objective evidence to support it.' "*

Quotation attributed to Lakshman Acuthan, managing director, Economic Cycle Research Institute. Mark Gongloff, Wall Street Journal, March 2, 2009

*"The rare nature of this recession precludes a cyclically normal recovery. Instead, we are consigned to a slow, painful climb-out, as are nations such as Japan and Mexico that depend on US demand."*

Roger Altman, Financial Times, April 6, 2009

*"New research shows corporate bonds have been far better at predicting where the economy is headed than anyone thought. Unfortunately, that suggests the economy is going to get much worse."*

Just Lahart, Wall Street Journal, April 9, 2009

*"The International Monetary Fund's new economic forecast offers a much gloomier view of the outlook for the world economy than the consensus of private sector economists and economic policy makers."*

Krishna Guha, Financial Times, April 10, 2009