

January 12, 2011

Dear Friend,

Congratulations! You have navigated what appears to be the worst of the terrifying economic tumult that began almost three years ago, without making major changes in your long-term investment strategy. By doing so you avoided one of the most common and serious mistakes investors can make. That is to change your investment strategy because of a change in market conditions. Investment strategy should change when an individual's personal circumstances change, not when or because the stock and/or bond markets are at a certain place in the ever recurring up and down cycles. These cycles follow the general trend of expansions and contractions in the economy. It is evident that these cycles are endemic to capitalistic, free market economies as they have occurred every few years since the beginning of capitalism. So it is a given that markets will rise and fall over time. It is also true that these relatively short-term fluctuations have little influence on the future value of your investments that will be held for several or many years into the future.

We're sure that you've read about or even know people who pulled their money out of stock investments in '08 or '09. Many of them have missed all or much of the market recovery which, as measured by the S&P 500 index, is an increase of approximately 90% since March, 2009. It's understandable that our emotions influence our decision making; we tend to be too pessimistic when things look bad and too optimistic when things look good. However, good investing strategy requires keeping emotions in check to the extent we possibly can. Adopting a long-term investment strategy that is based on personal circumstances and then maintained consistently through up and down market cycles clearly provides the highest probability of success.

It's tax time again and we're enclosing information to assist you in preparing your 2010 income tax returns. For any taxable accounts you have with us (non-IRA accounts) we've enclosed a Realized Gain and Loss report which lists all securities sold during the year and the resulting gain or loss on the sale. We are also sending a copy of the management fees you have paid us out of any taxable accounts. These fees may be tax deductible, depending on your specific situation. You should check with your tax advisor to see how this will affect you. Additional information you will need to report for tax purposes is included in your Forms 1099, which you will receive directly from Charles Schwab & Co. You should receive these forms by approximately February 1st. However, it is becoming increasingly common for "Corrected" 1099s to come out later. It's probably a good idea to wait until late February or March to finalize your income tax returns. This is especially true this year because of the tax legislation that Congress passed in December.

Please call anytime if you'd like to discuss your portfolio or other aspects of your financial situation.

Arcadia Investment Advisors, LLC