

January 15, 2010

Dear Friend,

“What do you expect the stock market to do this year?” This is a question we all hear or overhear or are tempted to ask this time of year. It’s not surprising that with a new year upon us we are curious about whether at the end of 2010 we’ll be healthy, happy and prosperous. But there is a surprising twist in the way this curiosity plays out. We don’t ask a medical doctor to predict how healthy we’ll be a year from now. We don’t go to a therapist and ask them to predict how happy we’ll be. Yet we routinely ask anyone who works in finance or economics how the stock market will do in the coming 12 months.

As a culture, most of us don’t believe that fortune tellers can show us what the future holds. But many of us make major financial decisions based on the predictions of “experts.” These experts have predicted every possible scenario in the past 2 years. The range of predictions includes the forecast in late 2008 (supported by a poll showing 6 of 10 Americans in agreement) that we were headed for a depression similar to the 1930s. On the positive side, the developer of investment strategy for AIM Investments in mid-2007 predicted “stock gains stretching as far as the eye can see.”

Here is what we know about the year ahead. Historically, there is a 71% probability that stocks will have positive returns in 2010 and a 29% probability they will lose value. Over the next 5 years there is an 86% probability of gains. The longer the holding period, the higher the probability of gains. That’s all we know. Anyone who suggests they know more accurately how things will go in 2010, is practicing the art of fortune telling. It is not a good basis for financial decision making.

It’s tax time again and we’re enclosing information to assist you in preparing your 2009 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 securities sold during the year and the resulting gain or loss on the sale. We aggressively pursued tax loss selling strategies these past two years and we’re sure you will benefit from the losses we were able to capture. 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 1<sup>st</sup>. 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, better yet, until March to finalize your income tax returns.

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

Arcadia Investment Advisors