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Market Commentary – July 1, 2009

RegentAtlantic is a fee-only wealth management firm. We define wealth management as the integration of financial planning and investment management. Our clients are individuals, retirement plans, foundation corporations, trusts, not-for-profits, and endowments. We manage approximately \$1.4 billion of assets. Our clients outline their goals and are guided by our knowledge and solutions in order to meet those goals. Some differentiators for our firm include:

- We have a deep bench of financial professionals. Among our 38 employees, we have 15 CERTIFIED FINANCIAL PLANNERS™, 5 Chartered Financial Analysts, 10 MBAs, 2 CPAs, 2 JDs, 2 with MS degrees, 1 ChFC, 1 CDFAs, and 1 CLU. Our culture fosters teamwork and collaboration, so that each client of the firm has access to the expertise of and all of our financial colleagues.
- When we begin a relationship with a client, we first seek an understanding of that client's goals and financial situation. For individuals or families, examples of those goals can be retirement, planning for education funding for our client's children, charitable giving, estate planning, or buying a second home at the shore. From the information provided, we analyze with our client what steps will likely be necessary to achieve our client's financial goals, and when appropriate, what tradeoffs our client may have to consider to achieve those goals. These steps help us to recommend a diversified investment portfolio for our clients to consider
- Our firm's investment discipline is based upon the principles of Modern Portfolio Theory. We use globally diversified, multi-asset class portfolios which we believe, over the long term, have the potential to increase return while limiting the risk taken to achieve that return. Of course, as recent events have shown, all investments have risk, including the loss of money invested.

To give you a sense of our relationship with our clients, we recently sent the Market Commentary below to clients on July 1, 2009.

If this communication arrives at a time when you are evaluating your financial future, we would welcome the opportunity to talk with you.

June 2009: Looking Back, Moving Ahead

By December 2007, most of the world's equities markets were past their peaks; the year's returns were positive but hardly robust. Residential and commercial real estate prices in many nations were falling. But the torrid pace of economic expansion in many developing economies – China foremost among them – continued to propel oil and many other commodity prices ever higher. Their export-driven economies, along with those of many OPEC nations, continued to pile up the huge surpluses of savings that, when recycled into U.S. Treasury obligations, had kept borrowing costs low and lending standards lax for consumers and investors. We and many others in the investment industry had been talking about the mispricing of risk for some time; there was trouble in the air, but we couldn't foresee what kind of storm was just over the horizon.

Now, 18 months later, we often feel like sailors who managed to steer the ship through a terrifying gale and made it into a cove on a volcanic island. We all know we want to do our best to avoid ever sailing into such a gale again. At the same time, the need to repair the ship and restock our provisions makes lying at anchor a nonstarter, while the volcanic activity ashore and the frequent black clouds overhead suggest that it will be a long time before we get back to anything like the "normal" we were all used to.

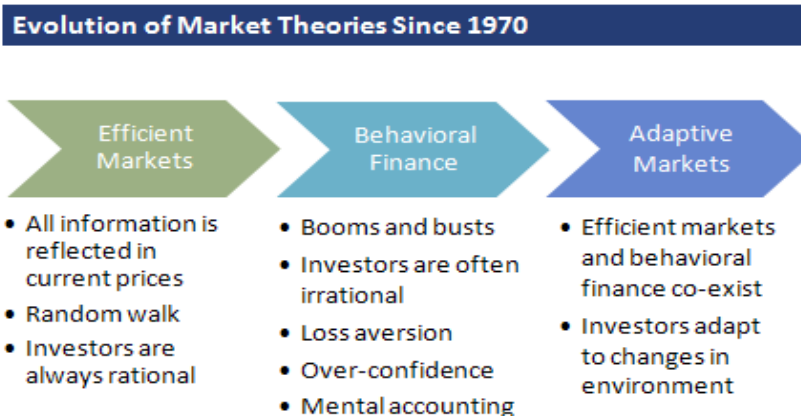
At this point, we want to affirm what we believe about the science and art of investing, to describe the conclusions we've drawn from this recent harrowing experience, and to explain the changes we are implementing in how we build and manage client portfolios. We welcome feedback from our clients and from other professionals whose clients look to them for recommendations of financial advisors.

Our Understanding of Modern Investment Theory

At the academic and institutional levels of professional investing, the past 40 years have seen a profound evolution of thinking about best theories and best practices. After Harry Markowitz planted the seeds of Modern Portfolio Theory in the 1950s, the pace quickened in the 1970s and 1980s with the development of the Efficient Capital Markets Hypothesis, the Capital Asset Pricing Model, the studies showing that – over most long periods – small cap stocks outperform large caps and value stocks outperform growth stocks, and all kinds of fascinating offshoots. The giant endowments and pension funds seized upon all this theoretical work and put it into practice with varied results. Underlying it all was the assumption that, on average, investors behave rationally, market prices quickly reflect all available information, and prices move in a random, i.e., unpredictable walk.

A counter-current to all this faith in human rationality started building in the 1980s and emerged full-blown as the new field of "behavioral finance", proving what we all know – that people are frequently irrational and make poor decisions – and that such behavior is as readily apparent when people are investing as when they're doing everything else. The behavioral finance movement gained important recognition when a psychologist, Daniel Kahneman, won the Nobel Prize in Economics in 2002.

We at RegentAtlantic, along with many other investment professionals, accept the reality that both Modern Portfolio Theory and behavioral finance are correct. MPT tells us a lot about how portfolios should be diversified to seek the highest level of long-term return for whatever degree of risk a client elects to accept. Behavioral finance reminds us that securities valuations can be overly optimistic or pessimistic for extended periods. Current thinking is leading to a view of the markets as complex adaptive systems, with investors exhibiting plenty of greed and fear along with rationality as they continually update their information and judgments and try to make sense of the signals they get from other investors' behavior. Like other social systems, the financial markets represent innumerable feedback loops collectively producing a constantly evolving system that can tend toward an equilibrium state without ever achieving it.



In the storm we've just been through, completely objective, understandable forces led many individuals in the U.S. and other developed countries to borrow vastly more, as a percentage of their incomes and net worth, than people have ever borrowed before. Similar forces led governments not to intervene as financial firms churned out a constantly growing menu of unregulated, misunderstood, and misrated products. The feedback loops favoring an irrational feeding frenzy in real estate and debt securitization markets all over the world proved stronger than any feedback loops that might have blown the whistle and sent the players to the showers.

Although not quite as dramatically as Holland's tulip bulbs in the 1630s, real estate prices reached an all-time zenith in 2006 and then began the inexorable slide that pushed us all into the perfect storm of late 2008. Investors previously willing to believe almost anything quickly became willing to trust in almost nothing but Treasury obligations and gold. The major investment firms, with nothing like a government-insured deposit program behind them, were no match for investors' loss of confidence. Once the feedback loop of fear produced a global panic, the valuation rules of classic finance theory and the diversification benefits of Modern Portfolio Theory went by the boards. All that mattered was the certainty that the U.S. Treasury would make good on its promises.

Evolution of RegentAtlantic's Investment Process

As we look around cautiously, hoping that the worst of the storm has passed, we are determined to make our investment management process both more disciplined and more flexible. That may sound paradoxical, but we believe it's the key to the market environment we're all facing. Market volatility is now less than one-half of the historic level reached last fall, but it remains twice the long-term average. We suspect volatility will remain elevated for quite some time, given the uncertainty about the long-term effects of the financial markets meltdown, the unprecedented governmental efforts at damage control, and individuals' responses to their new financial realities. We expect to see large run ups in asset prices followed by substantial declines, an extended era of mini-bubbles and mini-busts. It will require as much rational analysis as we can muster, as well as flexible responses to herd movements.

Discipline: We have built a more rigorous, detailed valuation methodology to apply at the asset class level. Benchmarks and normal ranges have been determined from historical data, and the current metrics for each asset class we use will be regularly monitored. This approach will provide the discipline to make choices in overweighting and underweighting asset classes (for example, large cap stocks vs. small cap stocks), which we've been doing for a long time, as well as overweighting and underweighting entire asset types (bonds vs. stocks vs. alternatives), which represents a new initiative.

Flexibility: We've built a less rigid approach to our investment process by adding the option of making tactical changes to our asset type weightings, i.e., the allocations among bonds, stocks, and alternatives. In the past we have not felt it appropriate for us to make changes to a client's allocation among bonds, stocks, and alternatives. The experience of the past 18 months, coupled with much analysis, debate, and soul searching, has persuaded us to make such tactical shifts at the asset type level, just as we have been making tactical shifts at the asset class level for a number of years. We will use the same tools, methods, and intellectual framework whether we're comparing asset classes to each other or asset types.

Dual Method Approach: Discipline + Flexibility

Long-term Valuations	Short-term Market Conditions
<ul style="list-style-type: none">• Determine long-term average valuations for each asset class• Shift allocations to try to avoid bubbles and exploit buying opportunities• Disciplined approach• Likely to sell out before the top and buy in before the bottom<ul style="list-style-type: none">• Part of the price of “contrarian” strategies	<ul style="list-style-type: none">• Monitor conditions to assess overall threat of collapse• When appropriate reduce exposures or implement hedging• Flexible approach• Likely to be a little late in getting out or hedging as the market turns south<ul style="list-style-type: none">• Part of the price of avoiding false signals

In order to enjoy long-term success, an individual or entity must evolve, innovate, and improve. Almost every investment professional would need quite a dose of ignorance or hubris to have worked through the past 18 months and not wonder how he or she could have done better for his or her clients. We have replayed the events of this extraordinary period over and over at our investment committee, management committee, and all-hands meetings (not to mention while lying awake at night), searching for clues and insights about how we might avoid – or lessen the impact of – the market meltdowns that undoubtedly lie in our future.

Evolution is a process of separating features and functions that worked from those that didn't. In nature, a species evolves as those random mutations that worked are replicated and emphasized, while mutations that didn't contribute to the species' reproductive success are eliminated or repressed. Human organizations and individuals don't have nature's luxury of waiting for random mutations among all members of a species to lead to greater success for the species as a whole. Every organization needs to consciously identify and implement changes that will improve its individual prospects for success.

Over the past few years the majority of RegentAtlantic's tactical shifts among asset classes have worked well. We have steadily increased our use of these tactical shifts to add value to our clients' portfolios. We now believe it is in our clients' best interests for us to evolve beyond fixed weightings to bonds, stocks, and alternatives and regularly apply our best thinking and analysis to evaluate the appropriate allocations at the asset type level as well as the asset class level.

New Nomenclature Supporting the New Approach

In order to increase our flexibility in portfolio construction, we will think of portfolios as being divided between a portion in Growth Assets and a portion in Fixed Income Assets.

Growth Assets include our four stock asset classes, i.e., Global Large Caps, U.S. Small Caps, Foreign Small Caps, and Emerging Markets, plus asset classes within those termed “alternatives” that have the potential to provide long-term “real returns”, i.e., returns significantly in excess of inflation. We will include an asset class among our Growth Assets if we expect it to materially contribute to a portfolio’s real return, hedge inflation risk, and/or help dampen the volatility of other Growth asset classes. For example, Real Estate, Commodities and High-Yield Bonds are not stocks, but their return potential and volatility are similar to stocks. The newest addition to our alternatives asset classes, Infrastructure (see the accompanying description), belongs among Growth Assets for the same reasons.

Fixed Income Assets include all the various types of bonds that can be expected to provide a reliable stream of interest income and a return of principal at a fixed maturity date. Fixed Income Assets are the ballast in a portfolio, the portion that should maintain a fairly constant value through fair weather and foul, while providing a long-term return somewhat above the long-term inflation rate.

Modifying the nomenclature we use to describe portfolios will increase flexibility and remove artificial constraints. “Growth Assets” and “Fixed Income Assets” provide us with workable definitions that are easy to understand and are consistent with the essential economic features of the investments we use.

There is one more step to announce. As we have increasingly stressed the role of alternatives (Real Estate, Commodities, Hedging Strategies, and now Infrastructure) over the past decade, we have come to describe our clients’ portfolio allocations in terms of the weightings to each asset type. For example, the allocation most often chosen by our clients has been called “48/32/20”, meaning 48% stocks, 32% bonds, and 20% alternatives.

Going forward, now that alternatives and stocks will be combined under the umbrella of Growth Assets, we will refer to a portfolio allocation with only one number reflecting the target weighting to Growth Assets. Further, those target weightings will always be done in 10% increments. Thus the former “48/32/20” allocation is becoming a “70% Growth” allocation; the combined 68% allocation to stocks and alternatives is being rounded to 70% in Growth Assets.

New Portfolio Target Ranges: Growth vs. Fixed Income

% Growth Assets Target	Growth Assets Range	% Fixed Income Target
0%	0% to 0%	100%
20%	16% to 24%	80%
40%	32% to 48%	60%
60%	48% to 72%	40%
80%	64% to 96%	20%
100%	80% to 100%	0%

As explained at the outset, we have decided to extend the same valuation metrics and analysis that we've been using to make tactical shifts among the various asset classes within an asset type to start making such tactical shifts among the asset types themselves. Going forward we will be assessing whether market conditions justify adjustments in a portfolio's allocation to Growth Assets anywhere between 80% and 120% of the target weighting. For example, in a portfolio with a 70% Growth allocation, we will have the flexibility to allocate as little as 56% or as much as 84% to Growth Assets, with a corresponding adjustment to the Fixed Income weighting. Our performance benchmark for such a portfolio would be a constant blend equal to 70% S&P 500 Index plus 30% BarCap Aggregate Bond Index, rebalanced every December 31st.

Conclusion

We realize that these incremental steps, taken collectively, represent an important evolution in our firm's philosophy and approach to portfolio management. We feel the experience and lessons of the past 18 months provide ample support for these changes. We share our clients' frustration and disappointment at the portfolio losses caused by the markets over this period, and we are determined to continue to do our best to help avoid such experiences in the future. Certain things have not and will not change, namely the core principles that have guided us (and our two predecessor firms) for three decades: honesty, transparency, intellectual rigor, responsiveness, and always putting our clients' interests first. We look forward to your feedback on these new steps and to the privilege of continuing to help you achieve your financial goals.

Important Disclosure

Please remember that different types of investments involve varying degrees of risk, including the loss of money invested, and that past performance may not be indicative of future results. Therefore, it should not be assumed that future performance of any specific investment or investment strategy, including the investments or investment strategies recommended or undertaken by RegentAtlantic Capital, LLC, will be profitable. Please remember to contact RegentAtlantic Capital, LLC if there are any changes in your personal or financial situation or investment objectives for the purpose of reviewing our previous recommendations and services, or if you wish to impose, add, or modify any reasonable restrictions to our investment management services. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request. This presentation is not a substitute for personalized advice from RegentAtlantic Capital, LLC.

The portfolio target ranges are the recommended target ranges that will be implemented as of July 1, 2009. This reflects the recommendation of the Investment Committee and is subject to change based on their research and on market conditions.

Information included in this letter has been gathered from various sources that are believed to be reliable; RegentAtlantic cannot guarantee the accuracy of this information.