

Perspectives

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HAVE YOU ASKED YOURSELF WHAT TO DO?

By William J. Militello, CIMA, AIFA

The question I have been asked most often over the past several months is: ***“Should I stop my elective deferrals from my paycheck into my company’s 401(k) plan because the market has gone down?”***

Over the years, investors embraced the concept of dollar cost averaging (DCA) by buying investments at progressively higher prices, but now that prices have declined, investors question whether they should be buying these same investments at now lower prices. My answer remains the same. In order for DCA to work, you must use this tool consistently. That means buying in both up markets as well as down markets. If you were willing to buy investments at higher and higher prices, and the underlying fundamentals of these investments have not materially changed, then it stands to reason that continuing to purchase them at lower prices is analogous to buying shares of these companies at a significant discount. Effectively, the entire market is “on sale” and the opportunity exists to let your plan of dollar cost averaging work to your benefit.

Dollar cost averaging is a technique designed to **reduce market risk** through the systematic purchase of securities at predetermined intervals and set amounts. Many successful 401(k) retirement plan investors already practice DCA without realizing it.

The following is a notional example of a Dollar Cost Averaging Plan. You have \$15,000 you want to invest in an S&P 500 mutual fund portfolio. The date is April 1, 2007. You have two options: you can invest the money as a lump sum now, walk away and forget about it, or you can set up a dollar cost averaging plan and ease your way into the mutual fund portfolio. You opt for the latter and decide to invest \$1,875 each quarter for two years. Had you invested your \$15,000 in April 2007, you would have purchased 103.99 shares at \$144.24 each. When the mutual fund portfolio closed for the quarter in March of 2009 at \$84.26, your holdings would only be worth \$8,762.20! Alternatively, had you dollar cost averaged into the mutual fund portfolio over the past two years, you would own 113.66 shares (10 more shares); at the closing

price of \$84.26, with a market value of \$9,577 (\$815 or 9% more).

To go a step further, without dollar cost averaging you would break even at \$144.24 a share. With dollar cost averaging, you would have turned a **profit of \$1,394.32** when the mutual fund hit that price thanks to your lower cost basis. So, now is the right time to continue to invest and roll over old 401(k) accounts and IRAs. Contact us and we can help you through this easy process.

Another question I have heard a lot is: ***“Should I change my mix of investments (allocation) to something more conservative now?”***

No, this is not the time to be more conservative unless your investment objectives have materially changed. The stock market has lost half of its value over the past eighteen months and we believe the bottom of the market has already been set. The opportunity for price appreciation exists more with stock mutual funds than with bond mutual funds. I urge you to stay invested, especially now since you have already weathered the storm of the

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where he provides unbiased, professional investment advice on a pro bono basis.

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bear market. Of course, we encourage you to reconsider your investment objective and risk tolerance periodically by completing the Piedmont [Investor Profile](#) and speaking with a Piedmont advisor.

Some people have asked: *“Should I just stop investing until the stock market goes up?”*

This sounds logical, but we see the market on its way back up only in the rearview mirror. So, by waiting to jump back into stock mutual funds, you will have lost an opportunity for gains. For

example, the stock market is now up over 20% from its bottom of DOW 6,440 on March 9th, 2009. Those people who are waiting for the stock market to go up before they get invested are missing the signal. The prices of great mutual funds are half of what they were one year ago. The market is on sale right now and being invested and continuing to make regular payroll contributions will only help you achieve your long-term retirement goal.

The same money you spend in retirement will be earned from what you save today. We recommend you review the savings plan calculation and investor profile questionnaire annually and call us to discuss your investment selection especially before making changes. Contact us at Piedmont (1-800-453-2056) if you have any questions about how to invest for your future.

Featured below is a table of performance figures. The figures represent a comparison between the investment performance of Piedmont’s managed model portfolios versus well-known stock market indices (i.e.: the S&P 500 and the MSCI EAFE). I continue to believe that managed portfolios that are broadly diversified, low-cost and follow the tenets of Modern Portfolio Theory will perform better than an unmanaged index and individually managed discretionary accounts.

Periodic Performance
Monthly: 01/2003 - 03/2009

Data Series		YTD	6 Months	1 Year	3 Years	5 Years	Annualized Std. Dev. Since Inception
Piedmont	Ultra Conservative Portfolio	2.38	5.48	6.78	2.34	2.81	4.84
Piedmont	Conservative II Portfolio	5.07	13.52	16.37	2.27	1.16	6.81
Piedmont	Balanced Portfolio	6.66	17.62	21.21	4.60	0.30	8.35
Piedmont	Growth & Income Portfolio	8.52	21.83	26.07	7.09	0.66	9.97
Piedmont	Growth Portfolio	10.90	28.77	34.00	11.53	2.44	13.38
Index	MSCI EAFE ex Japan Index (net div.)	13.04	33.10	49.20	13.53	1.24	17.13
Index	S&P 500 Index	11.01	30.54	38.09	13.06	4.76	19.22
Index	One-Month US Treasury Bills	0.01	0.22	0.85	2.06	3.96	3.25

Performance Disclosures

1. The results portrayed are model results for the period 4/1/07 to present. Results prior to this date are hypothetical. There are limitations inherent in model results, particularly the fact that such results do not represent actual trading and that they may not reflect the impact that material economic and market factors might have had on the adviser’s decision-making if the adviser were actually managing clients’ money.
2. The results portrayed are net of investment advisory fees. A fee of 1.5% per annum was used to calculate the net of fees results. The fee schedule is in Part II Form ADV.
3. The results portrayed reflect the reinvestment of dividends and other earnings.
4. The models are compared to the S&P 500, One-Month US Treasury Bill Index and the MSCI EAFE (gross div.). The S&P 500 index is a non-managed selection of equity securities, which assumes reinvestment of dividends and has no trading costs, management fees or expenses, which would reduce the return. The S&P 500 is widely used as a benchmark and is widely recognized as representative of the broad general market for domestic equities. The MSCI EAFE Index is recognized as the pre-eminent benchmark in the U.S. to measure international equity performance. The One-Month Treasury Bill Index is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one month.
5. For various reasons (tax, personal preference, restrictions, etc.) some clients of the adviser may have had investment results materially different from the results portrayed in the model.
6. The portfolio models are allocated among a group of mutual funds consisting of equity and fixed income funds depending on risk tolerance. The asset allocation for each model is available upon request.
7. The conditions, objectives or investment strategies of the model portfolio did not change materially during the time period portrayed.
8. Some of the mutual funds used in these model portfolios are currently not being recommended by the adviser.
9. It is not our intention to indicate that past performance is any indication of future results. As with any investment, returns will vary and there is a potential to lose money.