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JULY 2009

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2009 Mid Year Investment Letter

For many of us July 4 is the beginning of summer. It also marks the half-way point of the year. Looking forward, we are cautiously optimistic – and want to share some thoughts on where markets stand today, how that has impacted your portfolio and why we believe our disciplined investment process has made a difference for you and the rest of our clients. Your portfolio performance report for the first half of 2009 is enclosed.

We also want to congratulate our faithful clients who have stayed the course during the last year. Despite this being one of the most trying times for investors, our clients have remained focused on their long-term financial goals. It is a testament to your resilience and willingness to adhere to a time tested disciplined investment process that prevails over attempts to time the market.

Economic News

One of the reasons we don't provide lengthy articles on the economy is because our experience proves that our time can be better spent. Famed investment legend, Peter Lynch once wrote that if you spent fifteen minutes trying to guess what the economy is going to do, you just wasted ten. If you asked forecasters in early March about the prospects for the economy, you would have heard some very dire predictions – this was when the conversation about the possibility of a depression or Japan-like lost decade was at its loudest. Of course that didn't happen and despite the endless reporting of the economic apocalypse and the fact that the United States economy remains in deep water, there are actually positive signs of tentative economic stabilization.

Some good news in the economy includes the recent upturn in manufacturing activity, consumer confidence and spending, coupled with the supposed bottoming out of housing prices and commodity prices as signs of the recession losing steam. If the housing market alone recovers slightly, that could add substantially to GDP growth. Lastly, the U.S. government has implemented massive fiscal and monetary policy initiatives and has indicated a willingness to do more if necessary to end the recession.

Index Returns

Stocks tacked small gains in June on to big gains in April and May, and closed the second quarter with their biggest three-month gain in more than 10 years. The large-cap S&P 500 Index gained 16% for the quarter, and is now up 3.2% for the first half of 2009. The small-cap Russell 2000 index surged by almost 21% in the second quarter, but still trails year-to-date with a gain of 2.6%. The Total International Stock Index soared 25%, bringing its year-to-date gain to 5.6%



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despite a loss in June. The Emerging Market Stock Index did even better in the second quarter, gaining 45% which is also its six-month return. REIT's continue to be volatile as evidenced by the performance of Wilshire REIT Index; it is down 13% year-to-date. Barclay's Global Bond Aggregate Bond Market Index Fund, a proxy for high-quality, intermediate-term bonds, gained 4.9% over the second quarter, and is up 1.5% for the year through June. Below we'll highlight the indexes that Northstar tracks:

Market Indices	2006	2007	2008	2009
S & P 500	15.8%	4.9%	(37.5%)	3.16%
Russell 2000	18.4%	(1.6%)	(33.8%)	2.64%
MSCI EAFE	23.5%	11.2%	(45.1%)	7.95%
MSCI Emerging Markets	29.2%	36.5%	(54.5%)	36.02%
Wilshire REIT	36.1%	(17.6%)	(39.2%)	(13%)
S & P Global Natural Resources	n/a	n/a	(49.0%)	17.54%
Barclay's Global Bond Aggregate	4.4%	6.6%	5.1%	1.52%

Is Diversification dead?

Adversity has a way of revealing strengths and weaknesses, and this is certainly true among financial advisors. The Wall Street Journal recently reported on "a small but growing number of advisers" who are abandoning the traditional buy-and-hold investment strategy. The article said, "Many advisers are questioning their faith in long-standing investment principles, such as controlling risk by building diverse portfolios;" some are "adding increasingly exotic investments;" others are "trading more actively" and others are "simply moving to cash."

The recent meltdown was tough enough for even the most seasoned professionals, but for those who lacked a clear underlying investment philosophy, the devastating sequence of events that began in 2008 effectively deprogrammed them from whatever belief system they had and left them searching for a new "religion" to believe in—one they could report to unhappy clients was more likely to work in this "new world".

The article further quoted the late Benjamin Graham, author of the investing classic, "The Intelligent Investor." As to whether buy-and-hold could ensure long-term success, he said, "Such a policy will pay off ultimately, regardless of when it is begun, provided that it is adhered to conscientiously and courageously under all intervening conditions."



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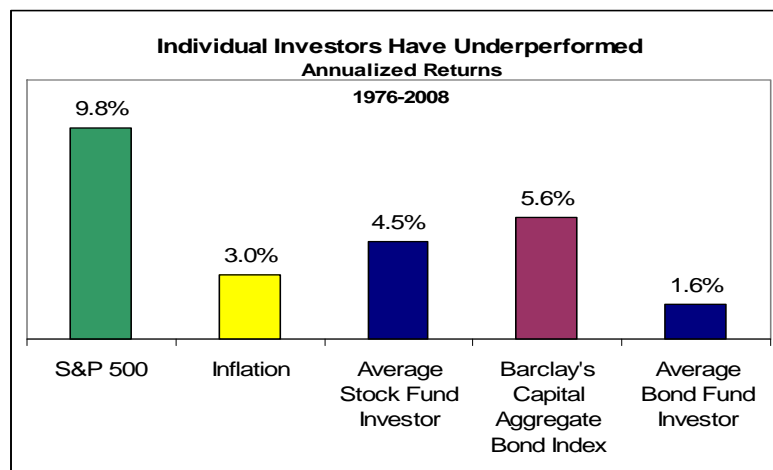
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We saw this play out this spring, as many advisors abandoned their strategy when the S&P declined to 670 in February. This was a big mistake—because in the following weeks, the S&P surged to almost 900 and these investors missed an opportunity to participate in the market's 35% surge from its March 9th low. Many investors sold at the worst possible time, when prices were at their lowest. We were made aware of this first hand as we welcomed several new clients to the firm.

It would have been very easy over the past year to abandon our investment convictions, like many other advisors did. For some reason, during turbulent times, most investors forget that price and value are inversely related. When the value of your investment goes up, its inherent value goes down. And just the opposite holds true when an investment goes down in value. This is one of the reasons why rebalancing portfolios periodically is so important.

Finally, providing investment advice can only be done successfully over long periods of time if the advisor is willing to stick to a set of core beliefs—an investment philosophy—that provides a source of discipline and a framework for making difficult decisions in turbulent times. That was certainly the case over the past year. The chart below exemplifies our thinking:



This chart, produced each year by Ibbotson, illustrates how the average investor (anyone who invested in equity mutual funds from 1976 through 2008) and compares their average annual investment return to that of Vanguard's S&P 500 index fund. Remember that the index is an unmanaged mutual fund while the average investor, your neighbor and mine, pours over the Wall Street Journal daily and watches CNBC nightly. From January 1976 through December 2008: the average equity investor earned an annual return of 4.5%. The unmanaged S&P Index provided an annual rate of return of nearly 10%, (9.8%). They



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underperformed the index by 5.30% and underperformed bonds by 1.10%. Underlying data shows that the average investor is buying and selling at the wrong times. The conclusion we draw is that managing investment behavior is vitally important when seeking above average stock market returns and is a critical component of the value we provide to you, our clients. (The Investment Company Institute tracks such data and we suggest a visit to their website, www.CIC.com to learn how frequently investors wrongly buy what's hot and what's not).

Where do we go from here?

In a report recently written by Lord Abbett's Milton Ezrati, titled, "Where Will the Cash Flow", he points out that of the \$65.7 trillion in household financial assets at the end of 2008, 11.7%-the high for the current decade is sitting in cash and equivalents (ie. in CD's), while 13.4%-the low for the decade by a huge margin- was in equity mutual funds (such as the DFA US Large Cap Value Fund). Mr. Ezrati notes that if investors were to move only half the difference between today's cash allocation and 2007's cash allocation back into equities, that 1.1% increase would create an inflow of about \$700 billion into the stock market. Now, that's a stimulus package. The prospect of such an event presents a strong case for the equity markets moving forward.

The stock market gains following the last five recessions as shown in the chart below and the returns reaped over the last few months indicate that regardless of what is happening in the economy or what is being said in the media, you need to be in the market to participate in the returns.

Recession months	Market Bottom	Next 1-2 Years*
Nov'73 to Mar'75	Oct. 3, 1974	+75.7% 21 mos
Jan'80 to Jul'80	Mar. 27, 1980	+34.9% 12 mo
Jul'81 to Nov'82	Aug. 12, 1982	+65.7% 15 mos
Jul'90 to Mar'91	Oct. 11, 1990	+45.2% 19 mos
Mar'01 to Nov'01	Oct. 9, 2002	+50.3% 17 mos
Dec'07 to ???	Mar. 9, 2009	???

We'll allow you to draw your own conclusions on the above chart and the piece written by Mr. Ezrati as we turn our attention to how the recent market volatility has impacted you and the rest of our clients over the past year. As we reflect on our meetings and phone calls so far this year, we believe the glue that helped you stay the course was your financial plan and your ability to focus and recognize, in a time of great uncertainty, that your goals and objectives would be at risk if you let your emotions take over. All of us have found ourselves challenged over the past nine months – and we expect to look back on this last while as a once in a lifetime test of our discipline and resolve.



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Best wishes for a relaxing and restful summer – and remember, should you have any questions whatsoever, we are here to take your calls.

Warmest Regards,

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