



2010 Quarterly Letter

A fresh, new year is as good a reason as any to revisit timeless concepts when it comes to your life and your wealth.

Financial Life Planning: Aligning your assets with your aspirations.

What does that mean, really? As we described when you first became a valued client, our mission as your financial life planner is to help you balance the resources in your life: **time, energy, relationships, talents** and **money**. By revisiting these essentials in *auld lang syne* style, we hope to reinvigorate you for the year — hopefully years — ahead as part of our dedicated service to you and your family.

Time

Judging by the speed at which 2009 flew by, there's no question that time is among our most precious resources. That's why we want to work with you on organizing your financial affairs, and why we feel the time we spend in our annual renewal meetings is time well spent. Together, we review your strategies already in place and assess whether they're serving their intended purpose. We position you to make your financial decisions swiftly and with confidence. Northstar's distinct life-planning services help you prioritize your time, so you can fill most of it with the things that are meaningful to you.

Energy

Your energy is also best spent doing those things you love to do. It shouldn't be wasted on efforts that seem counterproductive — in life or investing.

Consider the past year, during which markets remained highly volatile. You would have had to invest a great deal of your time and energy to keep up with the changes. In contrast, if you ignored the short-term noise and adhered to a disciplined investment strategy, the markets ultimately delivered highly satisfactory annual returns, with every equity asset class returning in the double digits for the year. Emerging markets and oil led the pack in gains as shown in the table below.

Index	Total Return 2009
S&P 500	26.5%
Russell 2000	27.2%
MSCI EAFE	27%
MSCI Emerging Markets Index	74.5%
Nymex Futures (Oil)	77.9%
Citigroup World Government Bond Index	7%

Of course the markets don't deliver good news every year, as was painfully illustrated in 2008. But the long-term data supports our assertion that it's better to track the market than to chase it. For example, according to a DALBAR study on investor behavior, the S&P 500 index offered a 20-year return of 8.35 percent as of year-end 2008. Over the same period, actual investors in equity mutual funds earned only 1.87 percent, presumably the price they paid for buying and selling as they tried to outguess where the market was headed.¹

Think how much time and energy you are saving by allowing us to build a globally diversified, passively managed portfolio that reflects your aspirations — instead of trying to divine an unknowable future or escape a played-out past. Through our phone calls, meetings and other communications, we help you focus more on your financial goals and strategies, and less on the distractions that stand in your way.

Relationships

Few things in life are more personal than your wealth, which is one reason we've built our services around enduring relationships — with you and for you. We work hard to develop relationships with experts in other fields so that we can serve you better. These relationships are vital when planning for the future and implementing strategies.

¹ DALBAR, Inc. "Quantitative Analysis of Investor Behavior," March 2009.

For example, by working with your CPA and estate planning attorney, we can seek to minimize estate taxes through appropriate application of new Roth conversion rules now in effect. Or by updating your beneficiary designations, we can ensure that your wealth is distributed as you intended. Currently, we are developing relationships within the health care industry to assist you in sorting through the myriad of health care options both pre- and post-Medicare. In establishing credible relationships Northstar is your ally in building a solid team comprised of your own experts and ours.

Talents

We are in constant awe of the range of interests and abilities our clients share with us. From professionals to small business owners, some are working, some are in various stages of retirement. Many come to us having faced a sudden or planned life transition through events such as retirement, windfall income, career changes, or death or divorce. Each of these can raise daunting and complex planning needs, immediate and long-term.

Our own talents and passions enable us to coach you through the financial life transition process: gathering, prioritizing, organizing ... transitioning. As we work through this process, we will reduce the confusion and help you regain the clarity and control you'll need to navigate the complexities and safely build the next stage of your life. By allowing us to assist you in this process and to use our expertise in managing your wealth, you are left with time to pursue the things that reflect your talents and passions.

Money

Nobody would deny that the past couple of years have been particularly tumultuous when it comes to managing your money. Even in historical perspective, the equity markets stand out as having "achieved" new depths. For example, in real, inflation-adjusted return, the worst 10-year rolling period for the equity market to date (as measured by the CRSP 1-10 index) ended in February 2009.²

But Dimensional Fund Advisors has provided us with additional fascinating data related to these historic events. As many typical investors fled their equity fund holdings beginning in 2008 through mid-year 2009, Dimensional investors demonstrated remarkably steady discipline. As a group, they generally *increased* cash flows into Dimensional's equity funds.³ Northstar clients also by and large stuck with their planned strategies, the results of which for your own portfolio can be viewed in your enclosed performance report.

So, what does 2010 hold for investors? It's important to remember the past. Investors are often confronted with unexpected developments, and the last decade offers an abundance of examples. Ten years ago, for example, Brazil was on the verge of a currency collapse, and General Electric was among the largest and most admired firms on the planet. Who would have thought that Brazilian stocks would soar sevenfold during the subsequent ten-year period, while GE shares fell 70%?

A lucky few may be able to exploit such extreme outcomes to enhance their investment results. But history offers compelling evidence that shows that those making concentrated bets on companies or countries are more likely to get blindsided by unpredictable events. Markets have 101 ways to teach us the virtues of diversification.

In other words, as many investors missed out on this year's market recovery because of their inability to remain focused and disciplined, we remained steadfast in our advice that you focus on ... you guessed it: aligning your assets with your aspirations and staying the strategic course.

Ideals are like stars. You will not succeed in touching them with your hands. But like the seafaring man on the desert of waters, you choose them as your guides, and following them you will reach your destiny.
— Carl Schurz

² Dimensional Fund Advisors, "Retirement, Risk & Return," July 2, 2009.

³ Dimensional Fund Advisors, "Active vs. Passive: Moving Beyond the Debate," December 2009.