



THE BRIDGE
Client Newsletter
Fourth Quarter 2009



AUSTIN ASSET MANAGEMENT COMPANY

Market Summary

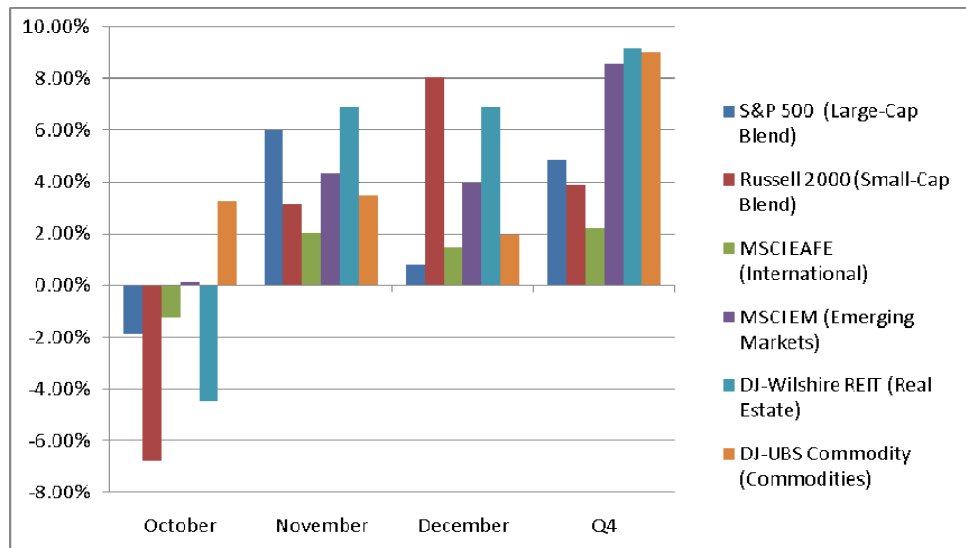
After experiencing widening losses to begin the year, stocks managed to recover from the impact of the recession and financial crisis to realize the highest calendar year return since 2003. Stocks fell to 12-year lows in March before rallying on growing signs of a recovery in what turned out to be Wall Street's biggest short-term rebound since the Great Depression. The first two plus months saw the broad market decline over 25%, followed by a rally nearly 10 months in length, in which the S&P 500 increased by over 63%. This rebound recovered over 50% of the decline experienced from October 2007 to March 2009. For the year, the DJIA rose 19%, while the S&P 500 rebounded 26%.

Inside this Issue

- Market Summary
- Ten Financial Moves for 2010
- Our Commitment to Client Security
- Long-Term Care

The market recovery was not limited to domestic equities, as world markets also posted double-digit gains. In Europe, the FTSE 100 index of leading British shares ended the year 22 percent higher, while Germany's DAX and France's CAC-40 gained 24 percent and 23 percent, respectively. Asian markets, including China's Shanghai index and Hong Kong's Seng, experienced even better returns, soaring 80 percent and 50 percent, respectively.

This most recent bear market was the thirteenth since 1946. History tell us that on average, these bear markets decline 31% and last just over thirteen months. The subsequent bull markets increased by an average of 131% and lasted roughly 46 months. By comparison, the current recovery has gained one-half of the average increase of past bull markets and has lasted one-fifth of the average duration.



Economic data continues to reflect signs of a slow but ongoing recovery. A record of

over 20 million people collected unemployment benefits at some point in 2009, a year that ended with the jobless rate at a 26-year high of 10 percent. However, the number of new claims for jobless benefits dropped in the last week of December to 432,000, the lowest since July 2008 and down sharply from its peak of 674,000 in late March. Housing and manufacturing are also showing signs of improvement. The Institute for Supply Management reported that its factory index rose to 55.9 in December, indicating that U.S. manufacturing expanded at the quickest rate in more than three years (readings greater than 50 signal expansion.) The Commerce Department reported that construction spending dropped for a seventh month, while a report on home prices showed a slight improvement. The Standard & Poor's/Case-Shiller's home price index rose for a fifth straight month in October, edging up 0.4%. The index was off 7.3% from October 2008, consistent with expectations.



In the final days of 2009, the Conference Board reported that their Consumer Confidence Index posted yet another moderate gain, rising from its previous reading of 50.6 in November to 52.9 in December, the highest level in two years. However, the index still has room to grow to achieve 90 or more, which signals a solid economy. In previous newsletters, we have monitored certain economic indicators. In our first quarter 2009 newsletter, we noted that of the leading economic indicators (LEI), three were up, one was neutral and six were down. In the month of November, six were up and three were down. Says Ken Goldstein, Economist at The Conference Board: "The indicators point to a bright new year."

Sources: Includes data provided by Yahoo Finance; Bloomberg.com; Conference-Board.org.

Highlight on Asset Classes: Commodities

What are Commodities Futures?

Unlike stocks, which typically entitle the holder to a continuing ownership stake in a corporation, commodities futures are an agreement to buy or sell a commodity at a specific date in the future at a specific price. Since they are traded on an open market, these contracts effectively assess the price of each commodity. One way to invest in commodities futures is through a commodities index or commodities fund, which can provide a single measure that takes into account the broad spectrum of commodities futures that are occurring at any given time. The Dow Jones UBS Commodity Index (DJ-UBSCI) currently tracks nineteen commodities, including aluminum, coffee, copper, heating oil and lean hogs. The index is diversified to minimize concentration in any one commodity or sector.

What are the Potential Benefits?

Commodities tend to bear a low or even negative correlation to other types of financial assets such as stocks and bonds. Essentially, this means that when stocks are rising, commodities tend to retreat, and vice versa. In addition, while inflation may negatively impact returns on stocks and bonds, commodities often benefit from inflation. Because the price of goods and services increases, the prices of the commodities needed to produce the goods and services will subsequently increase.

What are the Risks?

Commodities are one of the most volatile asset classes available, often several times as volatile as the S&P 500. However, a small amount of volatility is not necessarily undesirable, especially in the context of a diversified portfolio. Because commodity returns tend to be negatively correlated with those of other asset classes, when commodities funds are on the upswing, they can help offset losses in other parts of a portfolio. Finally, to get the full benefit of diversification, investors should maintain a small allocation to commodities over a long time period, perhaps 10 years or longer, depending on one's investment time horizon.

Sources: www.morningstar.com "Should you Add Commodities to Your Investment Mix?" Karen Wallace, June 20, 2006.
www.pimco.com. www.About.com "What Are Commodities Futures?"



Ten Financial Moves for 2010

The beginning of the year often brings to mind New Year resolutions. Here is a checklist of ten planning and investment moves that may help keep your financial plan on track.

1. *Renew your resolve to reduce your debt.* Being debt-free by retirement creates a great deal of flexibility.
2. *Create a spending plan for 2010 or update your existing spending plan.* A budget does not have to create restrictions, but instead can be empowering. Make it realistic, and set aside time on a monthly or quarterly basis to review it. Consider using an online tool like www.mint.com to help track spending.
3. *Check your credit report.* Even if you are careful with your money, your credit report still may have errors. Obtain a free credit report once a year from each of the three credit bureaus at www.annualcreditreport.com.
4. *Rethink your credit card.* If you currently pay an annual fee, consider switching to a card that charges no annual fee and also pays cash rewards, such as Schwab Invest First Visa or Blue Cash from American Express. For more information see http://money.cnn.com/galleries/2009/moneymag/0907/gallery.credit_cards.moneymag/index.html.
5. *Assess your cash reserves.* Check the balance of your emergency reserve to determine if it is adequate. A typical rule of thumb is to keep at least three to six months of living expenses in cash reserves.
6. *Consider opening a high-yield savings account to make the most of your cash reserves.* Although some banks offer high introductory rates, you can often find consistently higher rates at online banks which do not have bricks-and-mortar branches but are FDIC insured. Compare interest rates at www.bankrate.com.
7. *Maintain your plan.* At least annually, revisit your retirement assumptions and re-evaluate your risk tolerance and return expectations. One key to long-term investment success is a well-designed plan that accounts for risk as well as return and that is carried out in a disciplined manner.
8. *Worry about the things you can control, not the things you can't.* Savings rates, spending levels, and risk management are things you can control and are items you should review at least annually. The direction of markets, economies and business cycles are out of your control and should be accounted for in a well-diversified, long-term investment strategy.
9. *Avoid jeopardizing your retirement plan to fund children's education.* Start early, not only saving for education but also preparing your child for the cost of that education. Your children will be able to fund higher education in many and various ways, but they will not provide for your retirement.
10. *Take a Fiscal Health Day.* Consider setting aside a day to tackle your own list of financial "to do" items. Blocking off time on your calendar will ensure that you get started. This may provide a financial reward, as well as a sense of accomplishment.



Our Commitment to the Security of Clients' Information

Austin Asset Management Company (AAMC) strives to maintain our clients' trust and confidence. We are committed to the confidentiality and security of our clients' accounts and personal information. We take many steps to accomplish this, including but not limited to the use of independent custodians, limited access to client accounts, strong internal controls, and adherence to privacy and data safeguards.

Independent Custodians. AAMC uses reputable, well-capitalized and insured custodians, such as Charles Schwab and Fidelity Investments, to hold client assets. Checks for deposit are made payable to the custodian, not to AAMC or any of its employees. Clients receive monthly statements directly from the custodian, ensuring transparency. Clients may establish online access to view transactions and balances at any time. Charles Schwab and Fidelity Investments are members of the Securities Investor Protection Corporation (SIPC), which protects customers of its member institutions in the event of failure of the institution. In addition, both Charles Schwab and Fidelity Investments carry excess coverage through Lloyd's of London that exceeds the limits of standard SIPC coverage.

Limited Access to Client Accounts. Access to accounts is granted through a Limited Power of Attorney, which authorizes AAMC to perform specific activities related to asset management. The company may conduct trades for clients, deduct investment advisory fees from accounts, and process withdrawals going directly to—or for the benefit of—the client. For example, we may send a check made payable to a client to the address of registration, or wire funds to a client's bank or escrow account of identical registration. Monies sent to a third party or to an alternate address require the client's signature. Both Charles Schwab and Fidelity Investments have additional security guidelines in place, such as mandatory signature verification of third party and large dollar requests. Our Limited Power of Attorney does not allow AAMC to change addresses or beneficiaries, or to move money between accounts of different registrations; all requests of this type require the client's signature.

Internal Controls. AAMC has numerous internal control procedures in place. All client deposits received by the company are logged and verified daily. Reports of client account activity are also reviewed by the company daily. Access to client accounts is limited based on job function. Prospective employees of Austin Asset Management Company are subjected to a thorough background screening. All employees of the company sign a Code of Ethics. In addition, AAMC participates in a voluntary internal audit which is conducted annually by an independent audit firm.

Privacy and Data Safeguards. AAMC has created a secure environment to safeguard your personal information from unauthorized access, disclosure or misuse. We maintain a secure office and computer environment with safeguards that include firewalls, antivirus software, and regular backups. The company has a documented business continuity/disaster recovery plan in place.



Considerations for Long-Term Care Insurance

Long-term care insurance is designed to help pay for nursing home and/or home health-care needs for the elderly when they can no longer take care of themselves. Generally, the policies pay benefits when the insured is unable to perform at least two of the six activities of daily living, which include bathing, continence, dressing, eating, transferring and toileting. Cognitive impairment, such as dementia, can also trigger the payment of benefits on a long-term care policy.

The cost of nursing home care is high. According to the *Genworth 2009 Cost of Care Survey*, the average cost in 2006 for a nursing home in Texas was \$122 per day, or \$44,553 per year for a semi-private room. Contrary to what many people believe, Medicare provides almost no benefits for nursing home care expenses, except for limited skilled-nursing care after an individual is released from a hospital stay. Medicaid may pay for nursing home care, but the individual seeking these benefits must have reached poverty level, as determined by the state in which he/she resides. The rules to qualify for Medicaid are complex and are subject to change.

Often, it is middle-income people who need long-term care insurance the most. The well-to-do can usually afford to pay for their own long-term care needs, and the poor can usually get coverage through Medicaid. Married couples are particularly hard-hit financially when one spouse moves into a nursing home, since this situation creates expenses for two residences (the couple's home and the nursing home).

Should you purchase long-term care insurance? Here are some factors to consider before deciding:

- You have a chronic condition that may eventually require long-term care.
- Your parents or siblings had extensive long-term care needs.
- Long-term care expenses would be a financial burden.
- You can afford the premiums associated with long-term care insurance.

If you decide to purchase long-term care insurance:

- Choose a company with top financial ratings (A+ or better by A.M. Best). This is very important because you will likely keep this policy for many years.
- Choose a plan that has built-in inflation protection for annual benefit increases, without a scheduled increase in premium.
- Choose a plan that has a benefit period of at least four years.
- Compare the premiums for three-month, six-month, and one-year elimination periods. An elimination period is similar to a deductible; once you qualify, benefits don't begin until the end of the elimination period. By choosing a longer elimination period, you may be able to save a significant amount in premiums.

Premiums for long-term care insurance can be expensive. Fortunately, the Internal Revenue Service (IRS) allows the premiums that are paid for a qualified long-term care policy as deductible medical expenses, subject to annual maximums (depending on your age). To learn more about long-term care insurance, visit the Texas Department of Insurance website at www.tdi.state.tx.us/consumer/index.html or contact your financial planner.



Client Service Corner



As the end of the year approaches, we would like to remind you about the reports you can expect to receive to assist you in preparation of your 2009 tax return.

Gain/Loss Reports from AAMC

AAMC sends Gain and Loss Reports to individuals who have realized a gain or a loss in a taxable account in the previous year. The 2009 Realized Gains and Losses reports will be mailed by the end of January.

1099 Reports from Schwab or Fidelity

1099-Composite Reports for 2009 disclose taxable interest and dividend income, capital gain distributions, and proceeds from sale transactions in taxable accounts. For accounts that hold mutual funds, reports are mailed in mid-February. 1099-Composite Reports are also available on the custodian's website as soon as they are generated. Please note: If Schwab or Fidelity receives updated information from issuers of securities after mailing your 1099, corrected reports will be issued.

The AAMC Realized Gains and Losses report is intended to complement the 1099-Composite sent by the custodian of your accounts. Please forward both reports to your tax preparer, or contact the Client Service Department to have duplicates sent. As always, please feel free to contact us with any questions.

Take your Savings Bonds Paperless



Do you struggle to keep up with your paper savings bonds? If so, TreasuryDirect's SmartExchange program can help. TreasuryDirect is the only financial services website that lets you buy and redeem securities directly from the U.S. Department of the Treasury in paperless electronic form.

SmartExchange enables TreasuryDirect account owners to convert their paper Series E, EE and I Bonds to electronic securities in a special online account. Online holdings and their current values can be viewed at any time, so you don't need to worry about paper securities being accidentally lost or destroyed. This access also makes it easy to track and redeem bonds down the road.

When electronic bonds reach final maturity and are no longer earning interest, they can be paid automatically to a linked bank account, preventing loss of interest.

To learn more, visit TreasuryDirect's website at <http://treasurydirect.gov/indiv/research/indepth/smartexchangeinfo.htm>.



Retirement Plan Contribution Limits for 2010

The IRS recently announced cost-of-living adjustments for pension plans for 2010. Key caps on retirement plans won't fall, despite inflation's decline; the cost-of-living index is less than what it was a year ago.

There will be *no change* to the following contribution limits:

401(k), 403(b) and 457 elective deferrals	\$16,500
Catch-up contributions (age 50 & above)	\$ 5,500
Defined contribution plans	\$49,000
SIMPLE retirement accounts	\$11,500
Catch-up contributions (age 50 & above)	\$ 2,500
Traditional and Roth IRAs	\$ 5,000
Catch-up contributions (age 50 & above)	\$ 1,000

The adjusted gross income limitation for determining the maximum Roth IRA contribution for married taxpayers filing a joint return or for taxpayers filing as a qualifying widow(er) is increased from \$166,000 to \$167,000. The adjusted gross income limitation for all other taxpayers (other than married taxpayers filing separate returns) remains unchanged at \$105,000.

The Social Security wage base will remain at \$106,800 for 2010, the first time the index hasn't changed since 1971. There will be no cost of living increase for Social Security benefits in 2010.

Estate Tax Update

The US Congress did not enact an extension of the estate tax before December 31, 2009. Accordingly, there is now a one-year repeal of the estate tax for 2010, subject to future Congressional action that might reinstate the tax at any time.

The estate tax and the generation-skipping transfer tax (on assets given to grandchildren) were repealed at the end of 2009. Both taxes are scheduled to return in 2011 at the unfavorable rates that applied 10 years earlier. The amount that would be exempt from each of these taxes will then be \$1 million, with the remainder taxed at 55 percent.

There is still a gift tax if a taxpayer gives away more than \$1 million during your lifetime, but the tax rate has been reduced from 45 percent to 35 percent.

Most estate planners expect Congress to retroactively restore the system that applied in 2009: a \$3.5 million exemption for estate tax and generation-skipping transfer tax, with a 45 percent rate for these two taxes as well as the gift tax.



Season for Caring

As part of our company holiday celebration this year, we adopted several families through the Austin American-Statesman's *Season for Caring* program. The idea came from our holiday planning committee, which divided employees into three teams and challenged each team to take \$250 in seed money and "grow" it by seeking out additional donations for goods or services in the community, in order to help the chosen families. Everyone found this so rewarding that we intend to make this a permanent holiday tradition.

For the results of our challenge and more information on the *Season For Caring* campaign, please see http://www.statesman.com/blogs/content/shared-gen/blogs/austin/seasonforcaring/entries/2009/12/18/results_are_in_for_companys_co.html

One World Theatre

Austin Asset Management is a corporate sponsor for One World Theatre (www.OneWorldTheatre.org) for the 2009-2010 season. One World Theatre provides "a premiere forum showcasing an eclectic mix of world-renowned performers." As a corporate sponsor, we have the opportunity to receive complimentary tickets to their shows. If any concerts or performances listed on their website would be of interest to you and your family, please contact Elizabeth@austinassetmanagement.com.

Putt for Progress

Austin Asset Management Company sponsored the 2nd Annual Putt for Progress charity golf tournament benefitting Capital Idea on October 5 at the University of Texas Golf Club. In 2009, Capital Idea celebrated 10 years benefitting Central Texans and raised over \$150,000, including \$15,000 from the golf tournament.



Employee Recognition Program

You are invited to participate in our employee recognition program. Twice a year, we recognize an employee who has consistently demonstrated outstanding performance during the previous six months. If you would like to nominate one of our employees for the Employee Excellence Award, please contact Carolyn@austinassetmanagement.com for a nomination form.

Company Update

We would like to update you on a few changes that have occurred on our team.

In November, we welcomed MaryBeth Meyer to AAMC as a member of our planning support group. She has over five years of financial planning experience, is serving in her third year as an FPA Austin Board Member, and is actively studying for the Spring 2010 CFP® Board Examination.

After nine years as a portfolio manager and compliance officer, Jay Kolar carried out one of his lifelong dreams to move his family to the Northwest to be closer to their extended family. We will miss Jay, and we wish him the best in his new adventure.

In January 2010, Justin Gallia joined AAMC as a full-time employee. Justin, who has been with us on a part-time basis since April 2009, has provided invaluable administrative support to all areas of the company. In his new role as Client Service Assistant, Justin will assume additional support responsibilities in the Client Service department.

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About Our Organization

At Austin Asset Management Company, our mission is to be the absolute best in the world at creating and maintaining the relationship between our clients' goals and our clients' wealth.

We intend to be retained for life, and to that end, we work to earn our clients' trust.

Austin Asset Management Company
...When Only The Truth Will Do SM

