The Lam Group
Investment Management

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The Big Picture: Keep Calm and Carry On*

While some economists and many media pundits predicted a global double dip recession and a lukewarm year for investors, the disciplined, patient investor was highly rewarded in 2010.

For the first eight months of the year, global equities and commodities had negative returns while fixed income and real estate provided balance for our diversified portfolios.

Table 1: 2010 Asset Class Returns: First 8 Months, Last 4 Months and 2010 (all 12 months)

EQUITY ASSET CLASSES	First 8 Mo 12/09-8/10	Last 4 mo 9/10-12/10	2010
S&P 500 Index - Domestic Large Cap Stocks	- 4.62%	+20.64%	+15.06%
Russell 2000 Index - Domestic Small Cap Stocks	- 2.97%	+30.74%	+26.85%
MSCI EAFE Index - International Large Cap Stocks	- 7.95%	+17.06%	+ 7.75%
MSCI EAFE SC Index - International Small Cap Stocks	- 2.01%	+24.54%	+22.40%
MSCI EM Index - Emerging Markets Stocks	- 0.33%	+19.26%	+18.88%
DJ US Select REIT Index - Domestic Real Estate	+14.14%	+12.21%	+28.08%
FIXED INCOME ASSET CLASSES	**First 8 Mo 12/09-8/10**	**Last 4 mo 9/10-12/10**	**2010**
BarCap Aggregate Bond Index - US High-Grade Bonds	+ 7.83%	- 1.19%	+ 6.56%
BarCap High-Yield Index	+ 8.28%	+ 6.32%	+15.12%
BarCap TIPS Index - US TIPS	+ 6.35%	- 0.05%	+ 6.30%
DJ UBS Commodities Index - Commodities	- 5.94%	+24.20%	+16.82%
Citigroup Non-$ World Bond Index - Non-$ Bonds	+ 3.33%	+ 1.81%	+ 5.21%
JPM EMBI Global Bond Index - Emerging Markets Debt	+12.27%	- 0.19%	+12.06%

Source: Morningstar, JP Morgan, PIMCO and DFA.

In the final four months of the year, global stocks surged, allowing all broad-based equity indices to finish handsomely in positive territory for the year (*recouping all of the losses since the collapse of Lehman Brothers in September 2008*). In spite of the slow start in 2010, riskier asset classes, such as global small cap stocks, and domestic real estate led portfolio gains for the year.

Over the course of 2010, all asset classes made meaningful contributions to our aggregate portfolio's performance with each asset class making contributions at different times. Despite a widespread belief that interest rates would rise, and a growing negative sentiment towards bonds, the fixed income asset classes provided stability and portfolio balance while making important contributions to the overall performance of our aggregate portfolios. The discipline and benefits of asset class diversification have served our portfolios well.

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Patience was the key in 2010 as our final results belied the significant market volatility experienced during the year.

*Keep Calm and Carry On**

In early 2010, many media pundits warned their followers of the absolute certainty of rising interest rates, and urged investors to flee the fixed income asset class. In mid-2010, sovereign debt problems in Portugal, Ireland, Italy and Greece (PIIG) renewed global fears of another financial system meltdown which sent investors again fleeing global equities and into the safety of investment grade bonds in the US and the non-PIIG countries. This is just another example of the folly of trying to time the markets and how media pundits are often confounded.

We continue to believe the most important investment decision an investor makes is the initial portfolio asset allocation configuration that should be articulated in a written Investment Policy Statement (IPS) and prepared with the guidance of an unconflicted investment advisor. The investor's time horizon, risk tolerance, current income needs, tax position, and estate plans must be considered in the context of a wide range of possible market conditions. The asset allocation decision *should not* be driven by then prevailing market conditions, the accompanying emotions, or the media that often plays into those emotions. Similarly, portfolio rebalancing decisions should only be made with the goal of buying low and selling high in the context of long-term investment policy guidelines.

The aftermath of the greatest financial crisis of our lifetimes has taught us some important lessons as the resilience of the global markets have rewarded the patient and well-diversified investor. Table 2 illustrates asset class performance surrounding the collapse of Lehman Brothers in September 2008.

Table 2: Asset Class Returns for The Crisis, The Recovery and The Patient Investor

Data as of 12/31/2010 **EQUITY ASSET CLASSES**	**The Crisis (6 mo) 8/31/08-2/28/09**	**The Recovery (22 mo) 2/28/09-12/31/10**	***The Patient Investor (28 mo) 8/31/08-12/31/10***
S&P 500 Index - Domestic Large Cap Stocks	-41.82%	+ 77.84%	*+ 3.46%*
Russell 2000 Index - Domestic Small Cap Stocks	-46.91%	+106.62%	*+ 9.69%*
MSCI EAFE Index - International Large Cap Stocks	-44.58%	+ 75.44%	*- 2.78%*
MSCI EAFE SC Index - International Small Cap Stocks	-45.22%	+110.91%	*+15.55%*
MSCI EM Index - Emerging Markets Stocks	-47.28%	+140.41%	*+26.75%*
DJ US Select REIT Index - Domestic Real Estate	-61.72%	+156.99%	*- 1.63%*
FIXED INCOME ASSET CLASSES	**The Crisis (6 mo) 8/31/08-2/28/09**	**The Recovery (22 mo) 2/28/09-12/31/10**	***The Patient Investor (28 mo) 8/31/08-12/31/10***
BarCap Aggregate Bond Index - US High-Grade Bonds	+ 1.88%	+ 14.30%	*+16.44%*
BarCap High-Yield Index	-22.39%	+ 77.31%	*+37.61%*
BarCap TIPS Index - US TIPS	- 7.47%	+ 18.81%	*+ 9.94%*
DJ UBS Commodities Index - Commodities	-44.03%	+ 53.62%	*-14.02%*
Citigroup Non-$ World Bond Index - Non-$ Bonds	- 1.62%	+ 19.56%	*+17.62%*
JPM EMBI Global Bond Index - Emerging Markets Debt	-12.74%	+ 44.16%	*+25.79%*

Source: Morningstar, JP Morgan, PIMCO and DFA.

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Despite the six-month crisis in all markets, the cumulative performance of these asset classes over the last 28 months does not reflect the end-of-the-world scenario that many experts and pundits had predicted. If a media-influenced or emotional investment decision had been made during the crisis period, it would likely have been a wrong one.

However, after any extended period of robust investment performance, especially in all the higher risk asset classes, it is important to remember:

Good times never last as long as you would like and bad times never last as long as you fear

Portfolio rebalancing to less-risky and lower-correlated asset classes and adhering to original investment policy guidelines is an essential risk management discipline. Making these decisions calmly and dispassionately is easier when the framework of a disciplined multi-asset class investment policy is in place.

***Keep Calm and Carry On** was a poster produced by the British government in 1939 at the beginning of World War II, to raise the morale of the British public in case Germany invaded Britain. The poster was little known and never used.

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2011 Investment Outlook

We continue to believe that portfolio balance, global diversification and the acknowledgement of risk in the context of a long-term investment horizon are important and critical to the proper management of investment portfolios.

Here are The Lam Group's 2011 strategies, ideas and biases:

General:

It seems remarkable that it has been 28 months since the Lehman Brothers collapse precipitated the global financial crisis. While the most recent 22 months of robust returns have been impressive, it is important that investors not suffer from amnesia and remember the inherent volatility of markets and that investments can unexpectedly and rapidly decline in value. Given how far and how fast many of the riskier asset classes have appreciated over the last 22 months, we are approaching these asset classes cautiously and in many cases taking the opportunity to rebalance our portfolios towards long-term investment policy targets.

Despite the greater risk that rising markets bring, we are mindful of the auspicious investment climate that is often present during the third year of a Presidential cycle as well as the historically favorable domestic equity market performance during periods when the US Government's Executive and Legislative branches are led by opposing parties.

With unprecedented accommodative domestic monetary policy (Fed holds short rates close to zero, ongoing program of quantitative easing) and fiscal policy (tax cuts extended another two years) in the face of an ever-increasing budget deficit, it is possible that the value of the US dollar will diminish relative to other currencies, both hard (e.g. gold) and soft (e.g. paper).

Equities:

In a weak US dollar environment, it is possible that non-US dollar equity investments will continue to do well relative to US dollar-denominated investments. As countries like China and India lose their advantage of lower-cost labor due to their strengthening currencies, these countries may choose to allocate their resources differently and extend the scope of their US investments beyond the traditional purchases of US government bonds.

In a weaker US dollar environment, US assets will appear inexpensive to foreign investors and the countries with the strongest currencies may increase their acquisitions of US companies, real estate, and resources. It is possible that US equity markets will rise merely as a consequence of global bargain hunting. While growing foreign ownership of traditionally US-owned assets may not necessarily be good for our country, it will be beneficial for the domestic equity markets.

As the economies and political circumstances in many emerging markets countries have improved over the last 10 -12 years, it is fair to say the equity markets in these countries are less risky than they were in the past. At the same time, it is possible that the economic and political circumstances at home have become more risky over the same period. Over the long-run, higher risk and higher-expected return have often converged.

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Fixed Income:
We feel it is unlikely that the Fed will act to raise interest rates until domestic employment improves and/or the economy shows evidence of sustained growth. However, with a weakening US currency it is possible that market forces cause interest rates in the ***longer maturities*** to rise. As a consequence, we think any increase in US interest rates will be in the form of a steepening US yield curve.

- A steep and/or steepening US yield curve can have positive effects on the health of our recovering financial institutions. A stronger financial system is necessary for the economy to fully recover.
- Accommodative monetary policy is ultimately inflationary.

There are two very different reasons that ***short-term*** interest rates could rise.

- A sudden global crisis of confidence in the US dollar could lead to dramatic increases in short-term interest rates similar to the policies Fed Chairman Paul Volcker initiated in the late 1970s/early 1980s, or
- Evidence of sustained economic growth and improvement in domestic employment statistics could lead to a Fed strategy of slow and deliberate interest rate increases.

Despite the widespread expectation of rising interest rates, we continue to believe in the risk management benefits of fixed income asset classes in the context of a diversified portfolio. Our fixed income exposures continue to favor short-to-moderate durations/maturities due to their lower price sensitivity to changing interest rates.

The Lam Group: Unexpected and Unpredictable
Despite the predictions and forecasts of imminent interest rate increases over the last two years, interest rates have in fact moved very little. Since mid-2009, market pundits have been calling for the demise of the bond market by virtue of a widespread certainty that interest rates must rise. These predictions were confounded by numerous "flight-to-quality" caused by events such as the European debt crisis, the "flash crash", and the BP oil spill that punctuated the markets in mid-2010, as well as the announcement of the QE2 program in early November. These unexpected and unpredictable events rallied the US debt markets and forced interest rates across the yield curve to new lows.

Making decisions based on what appears to be a certain outcome at the time can often prove costly. Many investors who reconfigured their portfolios in anticipation of higher interest rates this year have penalized their results while they were waiting.

While many investors focus on the negative ramifications of rising interest rates on the fixed income markets, it is important to remember if interest rates rise suddenly and dramatically, it will have negative implications for stocks and real estate as well. In a "sudden and dramatic" higher interest rate scenario, it is possible that short-duration investment grade fixed income asset class will have the best relative performance of all asset classes.

Despite our general feeling that interest rates on the short end of the yield curve will stay low for the foreseeable future and longer rates may rise in a slow and deliberate manner, we continue to believe trying to forecast interest rates, like trying to predict the direction of markets, is a fool's errand.

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Informed investors need to focus on concerns that are within their control, such as limiting investment expenses, optimizing asset location and tax-efficiency, as well as having an intelligent asset allocation plan and with disciplined portfolio rebalancing.

The Lam Group continues to focus on designing and managing balanced and globally-diversified investment portfolios. Our asset allocation approach employs a highly-analytical process to determine the appropriate combination of asset classes to build investment portfolios and strategies that realistically and optimally reflect the needs, risk tolerances, and investment horizons of our clients. The Lam Group is an independent, fee-only, SEC-registered investment advisory firm with clients in Oregon, Washington State, California, Connecticut, Maryland, New York, and New Jersey. We offer both investment management and portfolio consulting services for taxable investors, family offices, endowments and foundations.

Our Firm has been structured to provide our clients with an investment management relationship that enjoys the highest degree of transparency and avoids any conflicts of interest. This transparency, combined with the intellectual honesty of using passively-managed asset classes in our asset allocation strategy, is the foundation of our overall investment philosophy and approach.

As our Managing Director and Chief Operating Officer, Tina Lee's efforts at the firm in 2010 have allowed us greater efficiencies and as a result we have the capacity to accept a limited number of new clients in 2011. We will continue our policy of considering new clients on a referral-basis only.

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Asset Class Investment Results:
All portfolios constructed and managed by The Lam Group are designed for an individual client's specific risk tolerances, income requirements and investment horizon. Our investment management approach includes the design of a customized asset allocation plan, the research and selection of the most appropriate and cost-effective asset class investments for the client's specific investment policy, and the on-going monitoring and disciplined rebalancing of the aggregate portfolio to optimize return, manage risk and minimize taxes.

As different clients have different goals, risk profiles and investment horizons, it is not useful to publish a track record of specifically-managed portfolios. The investment performance data below illustrate the returns of some of the actual mutual funds utilized by The Lam Group for specific asset class allocations in the construction of investment portfolios we manage.

All data is as of 12/31/10

Equity Asset Class Category	4Q2010	2010	3 Year Annualized	Correlation w/ S&P 500*
Domestic Total Equity Market				
-Wilshire 5000 Index (Total US Eq. Market)	***+11.74%***	***+17.70%***	***- 1.56%***	***+1.00***
Domestic All Cap Fund	+12.86%	+20.11%	- 0.34%	+0.99
Domestic Large Cap Stocks				
-S&P 500 Index	***+ 10.76%***	***+15.06%***	***- 2.86%***	***+1.00***
Domestic Large Cap Value Fund	+12.91%	+20.17%	- 2.52%	+0.98
Domestic Small Cap Stocks				
-Russell 2000 Index	***+16.25%***	***+26.86%***	***+ 2.22%***	***+0.93***
Domestic Small Cap Value Fund	+18.83%	+30.90%	+ 3.41%	+0.92
Real Estate Investment Trusts (REITs)				
-DJ US Select REIT Index	***+ 7.45%***	***+28.07%***	***+ 0.01%***	***+0.80***
Domestic REIT Fund	+ 7.41%	+28.67%	+ 1.09%	+0.80
-S&P Global REIT (ex-US)	***+ 6.39%***	***+16.91%***	***- 8.04%***	***+0.87***
International Real Estate	+ 6.39%	+18.09%	- 8.03%	N/A
International Large Cap Stocks				
-MSCI EAFE Index	***+ 6.61%***	***+ 7.75%***	***- 7.02%***	***+0.91***
International Large Cap Value Fund	+ 7.46%	+10.57%	- 6.12%	+0.93
International Small Cap Stocks				
-MSCI Small Cap EAFE Index	***+11.80%***	***+22.04%***	***- 1.72%***	***+0.86***
International Small Cap Value Fund	+12.54%	+18.10%	- 1.32%	+0.89
Emerging Markets Equity				
-MSCI Emerging Markets Index	***+ 7.34%***	***+18.88%***	***- 0.32%***	***+0.83***
Emerging Markets Value Fund	+ 8.37%	+22.06%	+ 2.63%	+0.86

Source: Morningstar, JP Morgan, PIMCO and DFA. * 5 yr correlation using monthly data

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All data is as of 12/31/10

Fixed Income Asset Class Category	**4Q2010**	**2010**	**3 Year Annualized**	**Correlation w/ S&P 500***
Domestic Investment Grade Bonds				
-Barclays 1-3 year Govt Bond Index	***- 0.13%***	***+ 2.40%***	***+ 3.47%***	***-0.31***
Short Duration Domestic Inv. Gr. Bond Fund	- 0.06%	+ 5.33%	+ 4.66%	-0.04
Short Duration Domestic Muni Bond Fund	- 0.68%	+ 1.10%	+ 2.56%	-0.01
-Barclays Aggregate Bond Index	***- 1.30%***	***+ 6.54%***	***+ 5.90%***	***+0.15***
Domestic Investment Grade Bond Fund	- 0.92%	+ 8.83%	+ 9.10%	+0.26
Domestic High Yield Bonds				
-Barclays High Yield Bond Index	***+ 3.22%***	***+15.12%***	***+10.38%***	***+0.74***
High Yield Bond Fund	+ 6.41%	+17.13%	+11.15%	+0.82
Inflation-Linked Bonds				
-Barclays TIPS Index	***- 0.65%***	***+ 6.31%***	***+ 4.97%***	***+0.25***
TIPS Fund	- 0.97%	+ 6.81%	+ 5.34%	+0.35
-Dow Jones UBS Commodities Index	***+15.79%***	***+16.83%***	***- 3.67%***	***+0.53***
Commodities-Linked Fund	+15.46%	+24.13%	- 0.53%	+0.55
International (non-US $) Bonds				
-Citigroup Non-$ World Govt Index	***- 1.45%***	***+ 5.21%***	***+ 6.54%***	***+0.27***
Non-$ Bond Fund	+ 1.61%	+ 4.76%	N/A	N/A
Emerging Markets Debt				
-JP Morgan EMBI Global Diversified Index	***- 1.76%***	***+12.24%***	***+ 8.63%***	***+0.63***
Emerging Markets Debt Fund	- 1.57%	+13.06%	+ 8.28%	+0.66

Source: Morningstar, JP Morgan, PIMCO and DFA. * 5 yr correlation using monthly data

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