

Quarterly Report



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Stock Market Update

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We are pleased to see investments rebounding significantly from the market low experienced last March. At that time, the S&P 500 hit a low of 683.38. It was a dramatic fall from October 12, 2007 when the S&P 500 closed at 1,561.60. In simple percentage terms, the fall was -56%. The rebound - from 683 March 6, 2009 to yesterday's 1,217.28 is an increase of +78.2%.

Our strategy has been to maintain our clients' investment positions over the past couple of years. We spent countless hours researching, evaluating and re-evaluating our academically-based process and determined that the best strategy was to stay put. That's what we did. As a result, our clients' portfolios are now headed into positive territory on a three-year basis, and are positive for 5 and 10 years.

Because we manage money for company 401k plans we have access to a lot of data showing individuals' investment performance over the past several years. It is clear that the people

who 'went to cash' thinking they could reinvest at just the right moment are the ones severely impacted at this point.

Many people talk about the fact that the S&P 500 has had negative returns over a ten year period. This is true. (See Chart) However, a diversified portfolio that includes Midcap and Smallcap Stocks, International Stocks and REITS

is positive over a five and ten year period.

Our work now, as the economy works its way through this past year's crisis, is to monitor portfolio performance and your individual financial planning goals closely to make sure that each family stays on track. Our integrated approach matches your investments to your personal goals, increasing the probability of success.

UFP Model Portfolio Name	Q1 2010	1 Year	3 Year	5 Year	10 Year
UFP Ultra Aggressive	8.57%	71.39%	-3.54%	4.54%	7.95%
UFP Capital Growth	7.47%	61.80%	-2.36%	4.40%	7.56%
UFP Total Return	5.85%	47.31%	-0.14%	4.47%	6.85%
UFP Balanced	4.92%	40.97%	0.81%	4.59%	6.73%
UFP Moderate Growth	4.00%	34.31%	1.87%	4.73%	6.57%
UFP Capital Preservation	2.50%	20.41%	3.71%	4.65%	6.03%

Name	Q1 2010	1 Year	3 Year	5 Year	10 Year
Vanguard S & P 500 Index	5.35%	49.73%	-4.20%	1.84%	-0.73%

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Economic Update

Although there has been no official declaration that the 'Great Recession' is over, it appears to be nearing the end. With GDP Growth at about 2.5% for the first quarter, the economy is growing – although slowly. Contraction has turned into slow growth. Expectations of GDP growth from economists for 2010 range from around 2% to 4.5%.

On inflation, economists are lining up on opposite sides with Goldman expecting continued low prices, maybe

even deflation, and Morgan analysts predicting that inflation will be a major problem as the Fed unwinds the bailout and stimulus programs. Goldman sites overcapacity in almost every sector, from manufacturing to labor to back up their claim.

Unemployment remains unacceptably high at over 10%. While the rate is no longer increasing, it has not yet come down significantly. Employment – usually the last casualty at the

beginning of a recession, is also typically the last ill to recover.

Consumers continue to save and massive amounts of cash sit on the sidelines as investors wait for the appropriate time to 're-enter' the stock market. Since most investors chase trends, why is there so little interest in stocks after a furious 1 year rally? Investors don't yet trust this market. And the public does not yet trust that economic recovery is here either.

Note: UFP Model Portfolios are the basis upon which we create and implement customized portfolios for individuals' accounts. Model Portfolios are available in company 401k plans. For more information about any investment, please request a prospectus. A prospectus contains more information regarding risks, fees, and expenses. You should read and consider information in a prospectus carefully before investing. Investment returns will fluctuate, cannot be guaranteed, and do not predict the future performance of any investment.



IRA's and 401k Plans Take on Added Significance

Since the stock market crash of 2008, employers are less willing than ever to adopt and fund Defined Benefit Pension Plans for their employees. As a result, nearly all of the risk and responsibility to create a financially secure retirement has fallen onto employees themselves. The Defined Contribution Plan – most commonly an IRA or a 401k – is now the most essential tool to make that happen.

A new company called *BrightScope™* has begun to rate company 401k Plans. The basic rating, available free to the public, can help employees, companies and advisors, as it provides a wealth of information about fees, investments, company generosity and participation rates. The availability of increasingly transparent information will make it easier for employees and employers to evaluate and improve their 401k plans.

To find out about YOUR 401k plan go to:

www.BrightScope.com



BrightScope™

Financial Regulatory Reform

Financial Reform Legislation is in process and it is substantial. Elements of both the House and Senate bills passed earlier this month will reinstate important elements of the regulatory apparatus that had been dismantled leading to the financial collapse of 2008. The two most important aspects of this legislation are: addressing 'too big to fail institutions' and the re-regulation of the derivatives market. This Financial Reform Legislation has teeth and – although you won't read much of this in the popular press – it has had a significant measure of bipartisan support.

The Glass-Steagall Act was originally adopted in 1933 as a response to the 1929 Market Crash and Great Depression. The Act mandated the separation of the banking and brokerage industries by prohibiting a commercial bank from also serving investment banking customers. The purpose of this landmark legislation was to protect the nation's banking system and it's people's cash deposits from the inherent speculative excesses of the investment banking industry. In 1999 the Gram-Leach Bliley Act was signed into law repealing the Glass Steagall Act and legalizing the conglomerate financial institutions that became 'too big to fail.'

'Too big to fail' is addressed in the proposed Legislation through the establishment of a systemic risk regulator that would evaluate systemic risk across industry sectors. This Financial Services Oversight Council may or may not end up as part of the Federal Reserve. There will also be increased capital and liquidity requirements for companies that are deemed to be 'too big or too interconnected that their failure would cause significant disruption to the economic system.' This is important because during the financial

crisis higher degrees of leverage grossly magnified the impact of falling home prices.

The most heated part of this debate centers around how much and what type of authority to give the FDIC to intervene when a failing firm has been identified. A \$50b fund (\$150b in the House version) financed by industry fees has been proposed. This fund can be distinguished from a 'government bailout' as the money would not come from the taxpayers and would be used to assist in the liquidation rather than salvation of a failing firm.

Further dismantling of regulations that led to the financial crisis was the result of the Commodity Futures Modernization Act. Signed into law in 2000, this law completely deregulated the market for "complex derivatives" allowing banks to speculate without limit in an unregulated and highly leveraged manner. At ground zero of the Great Collapse, these derivatives were being traded "off the balance sheets" of the banks and without the leverage controls that applied to trading on regulated commodities exchanges. In 2007 these derivative securities had an estimated value of \$516 Trillion Dollars according to statistics from the International Monetary Fund. By comparison, the entire world stock and bond market combined had a value of \$194 Trillion Dollars.

Financial Reform Legislation now in front of the Senate would impose restrictions on the derivatives market by requiring most derivatives to be traded through regulated exchanges and monitored by either the SEC or the Commodity Futures Trading Commission. Requiring derivatives to be traded on

regulated exchanges as they were prior to 2000 is the most important aspect of this Legislation. There is broad agreement about the need for this regulation and this provision enjoyed bi-partisan support in the Senate Agricultural Committee where it originated. (The Senate Agricultural Committee oversees commodities trading). According to Senator Saxby Chambliss (R-Georgia), ranking Republican on the Committee, he and Senator Lincoln (D-Ark), Committee Chair, 'agree on 90% of the bill.'

Additionally, The Financial Reform Legislation requires that creditors retain 5% of the credit risk associated with any loan (mortgage or other collateralized debt) that is transferred, sold or securitized. This provision addresses another one of the major problems that created the financial meltdown: that loan originators selling off packages of loans in the securitized mortgage market did not retain any 'skin in the game' and therefore lost their commitment to the original borrowers, their customers.

Other provisions of the bill include creation of a Consumer Protection Agency, shareholder rights regarding corporate governance and executive pay, new bank supervision rules and regulation of hedge funds.

Despite the oppositional public posturing of the two parties, there is considerable support for the most important elements of the Financial Reform Legislation being negotiated at this time in Washington. I agree with Sen. Bob Corker (R-Tenn) who said that the current financial reform bill to which the GOP has issued strong objections can be fixed "in a week's time" and that both parties should "tone down the rhetoric a little bit."

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