WATERFORD ADVISORS

An SEC Registered Investment Advisor ● Certified Financial Planner™

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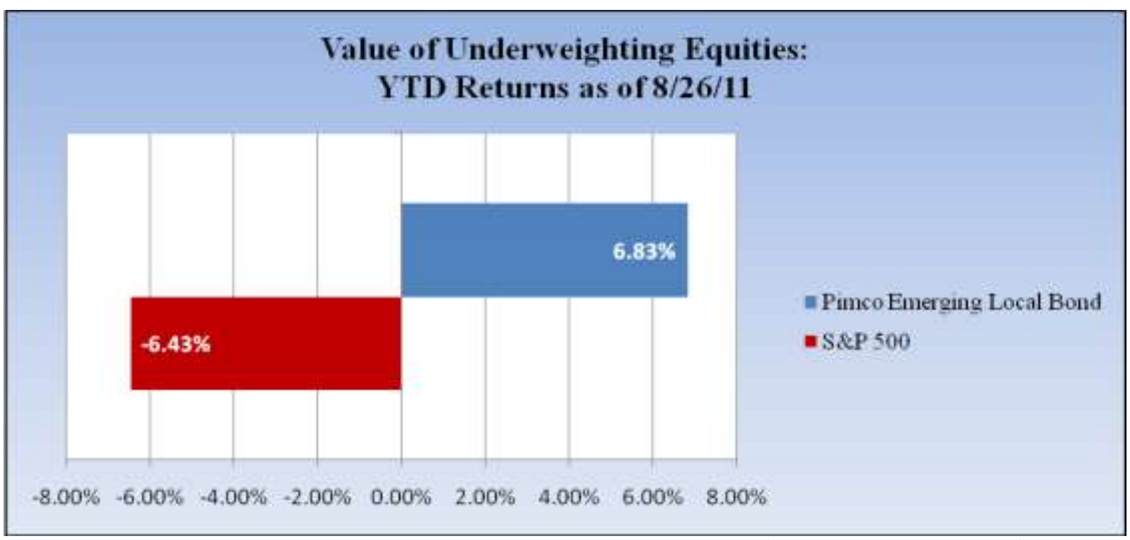
Dear Clients and Friends:

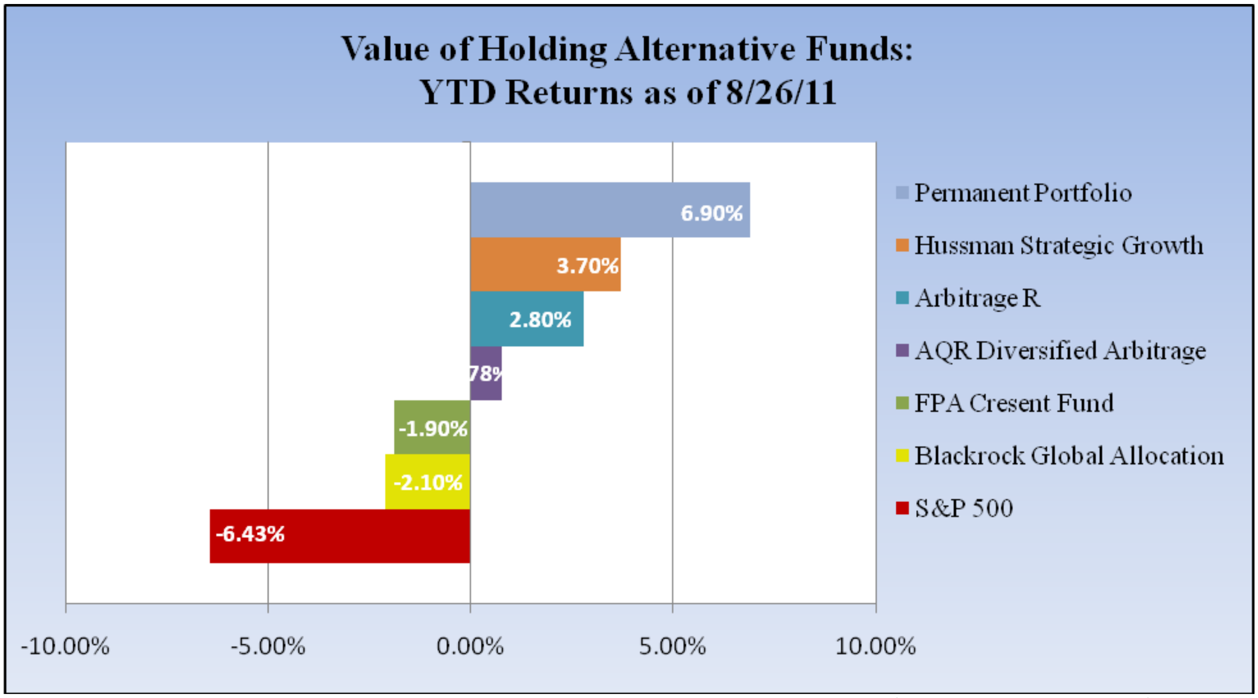
While temporary market declines are stressful and unpredictable, they are not at all unusual. They are also not uncommon and should be anticipated as they have happened in the past and will happen again in the future. We have not changed our Investment Philosophy and approach to Portfolio Management as a result of what's happening in the markets today. **As an investor, your sound investment practices are essential and critical at times like this.** These practices include faith in the future, patience, discipline and remaining committed to your long-term financial goals.

But on a more practical note, let's discuss what Waterford Advisors has been doing at the Portfolio level to mitigate the above average risks that we have seen in the markets for some time. Over the last year, we have proactively made a number of well thought out strategic changes in our portfolios to offset risks and help reduce the downside hazards inherent in the markets. Primarily, we have reduced equities by approximately 15% in all but our most aggressive portfolios. The 15% equity underweight has been predominately allocated to PIMCO's Emerging Local Bond Fund, which as of this writing has a year to date positive return of 6.83%, compared with the S&P 500 (a proxy of the equity market), year to date loss of –6.43%, a performance difference of over 13 percentage points.



*Past performance does not guarantee future results

Additionally, we have invested a sizable allocation (between 10 – 15%) that normally would have been in equities, into Alternative Investments Strategies. You can see how these strategies have performed against the S&P 500 in the following chart.



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As a result of our tactical strategic changes, our portfolios have outperformed their benchmark by a wide margin. Our defensive positioning will enable us to redeploy capital from lower-risk investments into equities or other higher-risk assets with much better long-term return potential. This puts us in a very good position to take advantage of the eventual and inevitable market advance, where we will be able to purchase equities at much lower prices and much better values. Adding to equities in a market decline can be uncomfortable, but as equity valuations compress in the short term, the return potential over the longer term improves. This longer-term analysis drives our decisions.

As we've written in our past commentaries, we understand that market shocks over the next few years will create investment opportunities for us to leverage. Other events may also magnify risks that we will want to protect against. In either case, we will continue to invest based on our extensive research and analysis, not based on what the investment herds are doing or common industry practice. In the long run, investing based on our research conviction has paid off for our clients, and we are confident it will continue to do so. We will continue to evaluate the markets and their underlying drivers with an eye towards minimizing risk and maximizing long-term returns in all of the strategies we manage.

As always, if you have any questions on how your portfolio is positioned or if you would like to discuss your investments in more detail, we welcome you to contact us to review by telephone or schedule a time to stop in our office. We appreciate your continued trust and confidence.

Sincerely,

Gregory L. Kozerski

Gregory L. Kozerski, CPA, CFP®, AIFA®
President