Van Sant & Mewshaw Inc.

Registered Investment Advisor

Common Sense Advisor ©

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Market Mantra

Analysis/Commentary

The stage is being set for a knock down drag out fight between Investment Advisors and stockbrokers and other securities sales people. This week the Obama administration unveiled its proposal for new financial regulatory reform. It proposes to impose a fiduciary standard on Brokers and Insurance companies selling financial products. This has been applauded by investment advisors and consumer advocates but has received unrelenting opposition by the Brokerage and Insurance industry. Registered Investment Advisors are

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Returns 2009		
Index	YTD	1 Year
S&P 500	+1.80%	-28.50%
Dow Jones Industrial	-3.80%	-25.80%
Nasdaq	+16.40%	-20.04%
Russell 2000	-1.80%	-26.50%
Foreign Stocks	+5.60%	-31.35%
Aggressive	+4.40%	-26.22%
Growth	+3.79%	-19.90%
Balanced	+3.18%	-13.58%
Moderate	+2.58%	-7.25%
Conservative	+1.97%	-0.93%
1YR T Bill	+0.80%	+1.60%

News and Updates

Schwab Waiving Fees for New Clients

Charles Schwab is continuing on its quest to be the most client and advisor friendly firm. Schwab recently announced benefits for new clients. Beginning July 1st, new clients of independent investment advisors that utilize Charles Schwab as their custodian will be reimbursed for any transfer fees that they may incur for transferring their assets to Charles Schwab. In addition, these new clients of Schwab institutional will not be charged for any equity trades through June 30th of 2010. For those individuals that are not happy with their current advisor or custodian, this makes the transition to a Schwab advisor that much sweeter.

Changes to the Common Sense Advisor

We have made changes to the Core Portfolios which appear quarterly on the back of this publication. We have adjusted the Equity/Fixed Income ratios resulting in five portfolio/benchmarks instead of four. We have also added more historical data with regard to Risk/Return characteristics of the portfolios. We believe the new portfolios more accurately reflect the way we manage actual portfolios and will serve as a more relative benchmark against which our clients may measure our value added.

Required by the SEC

Rule 206(4)-6 of the Investment Advisors Act requires all Investment Advisors to make available, to their clients, a copy of their proxy voting policies and procedures and a copy of the firm's code of ethical conduct. Please consider this our offer to provide, upon request, a copy of our proxy voting policies and procedures and code of ethical conduct.

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charged by law to act out of "fiduciary duty" when dealing with their clients. In plain English they are obligated to put their client's interests first. This has always been so. The 1940 Investment Adviser Act and State law requires that Registered Investment Advisers are held to a Fiduciary Standard. This was confirmed, and imposed a fiduciary duty on investment advisers by operation of law, in the Supreme Court of the United States; *Securities and Exchange Commission v. Capital Gains Research Bureau Inc. et al., 375 U.S. 180, 84 S. Ct. 275 11 L. Ed. 2d 237 (1963).* Thus, the court found; **"as a fiduciary, an adviser owes its clients more than honesty and good faith alone. Rather, an adviser has an affirmative duty of utmost good faith to act solely in the best interest of the client and to make full and fair disclosure of all material facts, particularly where the adviser's interests may conflict with the client's. Pursuant to this duty, an investment adviser must at all times act in its clients' best interest, and its conduct will be measured against a higher standard of conduct than that used for mere commercial transactions."** Brokers and other securities sales people are under no such obligation. Most investors do not understand this key distinction. The Rand Corporation, in a 2008 report, found that 63% of investors think brokers are legally required to act in the best interest of their clients. And 70% believed that brokers are required to disclose any conflict of interest that exists between themselves and their clients. Certainly this is understandable with the abundance of faux investment titles being employed by the insurance and securities industry; Financial Advisor, Financial Planner, Vice President, Investment Management Consultant and (the most ironic title of all) Wealth Manager. In essence a salesperson might offer you a mutual fund or variable annuity that is sold by their firm. Those same investments might be available elsewhere at one tenth the cost. And the firm may be offering a special commission to the salesperson as an incentive to sell these investments. The salesperson is under no legal obligation to disclose these conflicts of interest. The proposed regulatory changes will require Brokers and Insurance Companies to accept fiduciary responsibilities; full disclosure of how they are compensated, who they are representing and any and all conflicts of interest that may exist. The money at stake for the brokerage industry alone is immense; over $330 billion in fees, commissions, mark-ups and order-flow. The numbers are not readily available for the Insurance industry, but it's a safe bet to say they're larger. It's unlikely the brokerage industry is going to take this lying down. The industry's lobbyists have already been making the rounds to lay the groundwork to amend the securities laws in their favor and effectively stifle any reform. With apologies to the Bard we paraphrase one of his most famous lines. *"What's in a name? That which we call a skunk by any other name would smell as putrid."*

<u>A test for the Fiduciary Standard</u>

- Are you legally obligated to act in my best interest at all times?
- Will you disclose all potential conflicts of interest?
- In what ways are you being compensated?
- Will you disclose this in writing?

Anyone who has a fiduciary responsibility will not hesitate to comply with your request. Indeed, Registered Investment Advisers are required to do so, whether you request it or not.

Fiduciary What Professional Designation has it?	
Registered Investment Advisor (RIA)	**YES**
Attorney	**YES**
Certified Public Account	**YES**
Financial Advisor	**NO**
Certified Financial Planner	**ONLY IF AN RIA**
Wealth Manager	**NO**
Stockbroker	**NO**
Insurance Agent	**NO**
Certified Investment Management Consultant	**ONLY IF AN RIA**

Notable Quotes

“Passively managed funds outperformed actively managed funds across all categories during the past five years according to Standard & Poor’s Index Services, which was released today. Between 2004 and 2008, the S&P stock index outperformed 71.09% of actively managed large-cap funds, according to the year-end 2008 report from the New York-based firm. In addition,, the S&P Mid Cap Index outperformed 75.9% of mid-cap funds and the S&P Small Cap 600 Index outperformed 85.5% of small-cap funds. “The belief that bear markets strongly favor active management is a myth” Srikant Dash global head of research and design at Standard &Poor’s said in a statement. “The bear market of 2000 to 2002 showed similar outcomes.” Similar results were also reported for international-equity and fixed-income funds.” *(S&P passive funds trumped active over past five years, Sue Asci, Investment News, 4/20/2009)*

“Retirement plan administrators would be required to disclose all fees deducted from investors’ 401(k) accounts under legislation approved by a U.S. House panel. The House Education and Labor committee today approved the measure, which would require that the Labor Department impose penalties on plan providers who don’t disclose their administrative, investment management and transaction fees. The bill must be approved by the full House and Senate and signed by the president before taking effect. “It’s about time that Wall Street stop viewing workers’ 401(k) accounts like a gold deposit to mine,” said Representative George Miller.” *(House Labor Panel Approves 401(k) Fee Disclosure Legislation, Holly Rosenkrantz, Bloomberg.com, 6/24/2009)*

“Psychopathy is a personality disorder manifested in people who use a mixture of charm, manipulation, intimidation and occasionally violence to control others, in order to satisfy their own selfish needs. Although the concept of psychopathy has been know for centuries, the FBI leads the world in the research effort to develop a series of assessment tools, to evaluate personality traits and behaviors attributable to psychopaths. Interpersonal traits include glibness, superficial charm, a grandiose sense of self-worth, pathological lying and the manipulation of others. The traits include a lack of remorse and /or guilt, shallow affect, a lack of empathy, and failure to accept responsibility. The lifestyle behaviors include stimulation -seeking behavior, impulsivity, irresponsibility, parasitic orientation and a lack of realistic goals in life. Ironically, these same traits exist in men and women who are drawn to high-profile and powerful positions in society including political officeholders.” *(Serial Killers and Politicians Share Traits, Jim Kouri, The Washington Examiner, 6/12/2009)*

“Selfishness is not living as one wishes to live; it is asking others to live as one wishes to live.” *(Oscar Wilde)*

DILBERT BY SCOTT ADAMS

Core Portfolio Allocations
June 30, 2009

	CONSERATIVE	MODERATE	BALANCED	GROWTH	AGGRESSIVE
Equity	20%	40%	60%	80%	100%
Fixed Income	80%	60%	40%	20%	0%
YTD Return	1.97%	2.58%	3.18%	3.79%	4.40%
One-Year Total Return	-0.93%	-7.25%	-13.58%	-19.90%	-26.22%
Three-Year Return	4.22%	1.81%	-1.02%	-4.32%	-8.17%
Five-Year Return	4.26%	3.35%	2.16%	0.62%	-1.33%
Ten-Year Return	5.267%	4.17%	2.80%	1.13%	-3.42%
Worst One-Year Return	-10.81%	-17.67%	-25.85%	-34.44%	-43.17%
Worst Three-Year Return	0.86%	-2.46%	-6.39%	-10.89%	-16.28%
Best One-Year Return	23.95%	26.89%	32.83%	39.99%	47.34%
Best Three-Year Return	14.41%	18.07%	22.15%	26.41%	30.68%

Risk and return are inextricably intertwined.
Do not expect high returns without high risk and safety without low returns.

THE PURPOSE OF THE CORE PORTFOLIO ALLOCATION

Our Core Portfolio Allocations are hypothetical model portfolios which reflect a logical, passive, strategic asset allocation for long-term investors who are subjected to varying degrees of risk. They are based on our evaluation of the historical long-term risk and return relationships of the asset classes, and what we consider to be realistic and reasonable expectations going forward. It is the starting point for our strategic active asset allocation process. The Core Allocation will serve as a benchmark against which to measure our value added.

The Core Allocation is the asset allocation that we will implement when our conviction level about any specific asset class is not high enough to justify changing the asset allocation mix. It gives us a sensible long-term allocation, based on sound research. It gives us a constant frame-of-reference against which to measure the risk and return relationship between different asset classes.

All performance results of the Core Portfolios are based on actual index funds which have been model/back-tested for the relevant asset allocation. The Core Portfolio construction and the subsequent results were achieved with the benefit of hindsight and in no way does it reflect actual portfolio results. The Core Portfolios performance does not reflect management fees or transaction cost associated with the management of actual portfolios. There are limitations inherent in model allocation. In particular, model performance may not reflect the impact that economic and market factors may have had on the advisor's decision making process if the advisor were actually managing client money. This report should not be construed as advice meeting the particular needs of any investor. Investors are advised that past performance is no guarantee of future results. Historical data provided by Morningstar and made available upon request.