



ASPIRIANT

Insight

Wealth Management Commentary

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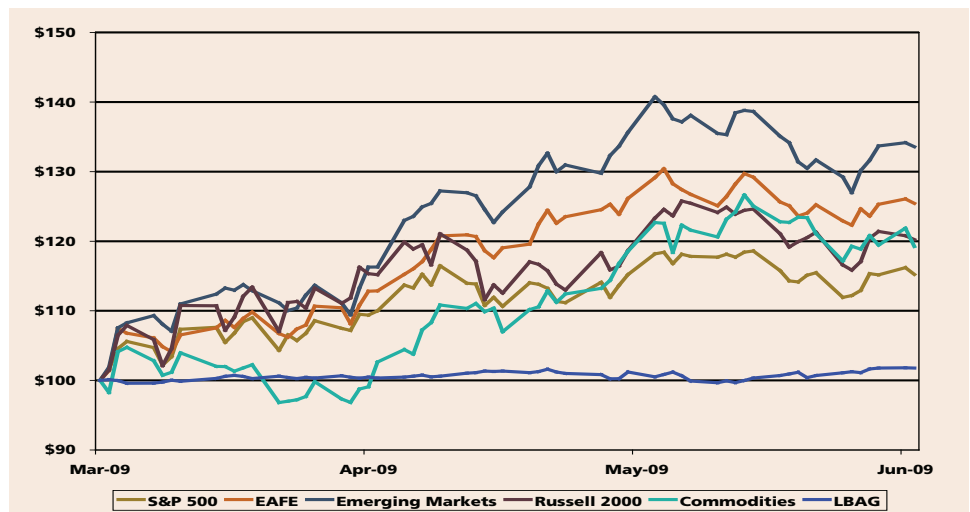
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Not (Yet) Out of the Woods

The second quarter of 2009 witnessed one of the most powerful advances in investment markets in many years. For almost everyone, however, this is hardly a cause for celebration since these advances pale against the extraordinary losses incurred in the preceding year and a half. Nevertheless, we are reasonably confident that a genuine market recovery is underway and is anticipating, in typical historical fashion, an underlying recovery in economies around the world. Meanwhile, clients can enjoy a quarter of handsome gains and year-to-date performance, ranging from mid-single digits to low double digits, which would be quite respectable for the entire year.

April and May showed very strong growth in virtually every equity asset class. This continued in early June but waned as the quarter drew to a close as the markets digested their gains or, in the view of some, retrenched in fear of a false start.



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The pessimistic view has some merit. US consumer confidence fell, unexpectedly, in June and the joblessness picture did not improve. More jobs were lost in June than in May, thwarting hopes for an improving trend. The unemployment rate rose, modestly, from 9.4% to 9.5%. The usual occurrence of employment totals being the last signal to improve...even after an economic recovery is underway...is little solace to the hundreds of thousands of newly unemployed workers. The unemployment rate statistic itself is a little unreliable as a predictor since it is a ratio of those without work over all those who have...or are looking for...work. Thus, the ratio can worsen even in a recovering economy because more people begin to have enthusiasm to look for work as the economy begins to improve (a newly encouraged job seeker, but who hasn't yet found a job, goes into both the numerator and the denominator). Still, many investors focus on the statistic and they didn't like what they just saw.

Negative and Positive Factors at Work...As Usual

In addition, there is no lack of geopolitical threat to the incipient economic recovery around the world: heightened terrorism in Iraq as US forces withdraw; a new and risky offensive in Afghanistan; taunting missile launches by North Korea; and election fraud and new repression mixed with unrelenting nuclear ambitions in Iran. Moreover, many fear the risk of inflation in the US and other economies as a consequence of unprecedented stimulus commitments. Carl Forster and Rich Palmer comment below on our prognosis on inflation and interest rates with a view that, on balance, the risks are modest.

This past quarter's market rise has quelled much of the investment "crisis" mentality that held sway not many months ago. In the "Q&A" interview that follows, our Chief Investment Officer addresses some of the key questions our clients face. We look forward to having the opportunity to meet individually with clients to continue to set new, or to reconfirm existing, portfolio strategies. To foster a very robust conversation, we will provide a more extensive presentation in the coming weeks and we urge our clients and friends to raise specific concerns in advance so we're sure to fully cover that ground.

We've recently taken a thorough and sober look at the investment performance that *all* of our clients have achieved over the past several years. As our recently updated *Performance Perspectives* material indicates, absolute results have been very disappointing, through the end of 2008, though *relative* results have been quite good when compared to standard portfolio benchmarks. We are very gratified that our coaching over the past many months encouraged the vast majority (over 90%) of our clients to make no significant

change to their long range investment strategies. So, while the future may present a relatively modest level of economic recovery in the next few years (due, in large part, to higher individual savings rates and lower consumption growth) causing overall investment performance to be at the lower end of historical recovery levels, we remain confident that our clients' renewed investment strategies will help them to achieve attractive performance going forward from here.

The Related Rise of Emerging Markets and Commodities Prices

Two of the biggest success stories of this past quarter were the market performance of emerging markets and commodities (MSCI EM benchmark up 34.70% for the quarter and the Goldman Sachs Commodities Index (GSCI) up 19.24%). No longer completely reliant on exports to more developed economies, major markets such as Brazil, India, and especially China, are now large and rich enough to implement their own growth stimulus and to rely increasingly on burgeoning domestic demand. So, as commodities *producers*, we expect them to benefit. But, as rapidly growing commodities *consumers*, these economies face the dearth of prior investment in commodities supply. One likely consequence seems to be continued upward pressure on global commodities prices, despite what may be weak levels of growth in more developed economies.

In late May, I had the privilege to be invited to speak to a number of wealth management professionals in China in a series of conferences and webcasts sponsored by China's professional credentialing authority, the Financial Planning Standards Board-China. Chinese professionals look to the US and other developed countries for guidance on how to best serve their clients, especially in trying times such as these. But there is no doubt among them that greater wealth and greater financial complexity is in store for their clients. They are very eager to learn as much and as rapidly as possible to be able to assist their clients to make the most of the opportunities they confidently expect in the coming years.

They also understand that their economy faces a major longer term challenge in providing support for an aging population with sparse family support mechanisms. The government of China has just inaugurated a public pension system to respond.

So, in addition to its already huge infrastructure spending, the massive multi-asset class investment fund that is likely to be accumulated for pension purposes over the coming decades will be part of what creates very substantial opportunity for global investors, including those far from China's shores.

Tim Kochis, Editor

Aspiriant in the News – Second Quarter Update

PROFESSIONAL RECOGNITION

Linda Fitz - Outstanding Advisor 2009

Linda Fitz named as an Outstanding Advisor 2009 by *Registered Rep* magazine for her service to Aspiriant clients and her dedication to historic preservation and environmental causes. Read all about Linda's many achievements at registeredrep.com.

Tim Kochis - IA Top 25 Most Influential People

Along with President Barack Obama, Tim Kochis named one of the most influential people in and around the independent advice business by *Investment Advisor*. For a complete list, please visit investmentadvisor.com.

Aspiriant – Investment News Listing of the RIA Giants

Aspiriant ranked #8 in *Investment News* 2009 ranking of the top fee-only registered investment advisors.

PRESS

April 2009 – Forbes.com In April our Chief Investment Officer, Jason Thomas, was asked to contribute his expert

opinion as a participant in another Intelligent Investing Panel for Forbes.com. Jason's insight was featured in a series of articles including, [Goldman's Earnings: Fool's Gold?](#), [Going Great Guns](#), [The Tea Parties Missed The Boat](#), [Don't Wait For The Green Shoots To Grow](#)

April 12, 2009—Municipal Bond Funds, in Starring Roles

Jason T. Thomas was an expert contributor for the article [Municipal Bond Funds, in Starring Roles](#) published in the *New York Times*.

June 28, 2009—How Stars So Rich and Famous Can Go Broke

The *San Francisco Chronicle* spoke with Ken Anderson, Director, Wealth Management, about the pitfalls of celebrity financial short sightedness for this article found on sfgate.com.

If you would like to keep up with Aspiriant in the news, visit our website's [newsroom](#) for the latest updates.

An Interview with the Chief Investment Officer

The past 12 months has been a roller-coaster ride for the global economy and capital markets. What are we to make of the current situation? The list of topics we would like to cover is so broad that we've chosen to present a few key thoughts in an interview, "Q & A" format. We look forward to presenting a more detailed analysis, with graphic displays, in an audio slideshow which will be available in the next few weeks. Please feel free to submit any questions or comments in advance to questions@aspiriant.com.

Q: What is happening with the global economy?

A: The US and global economies are showing signs of stabilizing, by some measures having already turned the corner. Retail sales, auto sales, durable goods orders, and home sales all seem to have found a bottom in recent months. Many economists feared that the recession would last well into 2010, but the current data seems consistent with the recession ending sometime in the second half of 2009.

We are confident that the global economy will, at some point

in the near future, resume growth. Most very well-informed commentators, like the Federal Reserve and the IMF, agree. However, the *rate* of growth may be modest and it may look different than the economy of the past. Key themes will be:

- The emerging markets are here to stay. Though firms from the developed markets have long recognized the growth potential in emerging markets, they are only now recognizing that emerging markets will also be a source of competition.
- Workers in developed economies have been protected from the changes in the global economy through protectionist policies that cannot be sustained. Governments around the world will need to work hard to ensure workers are prepared for new economy jobs.
- After decades of deregulation, increased regulation looks likely. Governments around the world will try to harness the power of markets while reigning in the excesses of capitalist competition. Expect at least some unintended consequences.

Q: Has the equity market come too far, too fast? Are the markets overly exuberant and should investors take profits or delay equity investments?

A: The US equity market has historically rebounded well in advance of the end of a recession. Since WWII, the median advance of the S&P 500 began 4.6 months prior to the official end of a recession, gaining 26.4%, on average. We should not expect the market to wait for a clear end of the recession, so the market rebound is not premature in that sense.

After suffering the worst peak-to-trough decline (as of March 9, 2009) of any bear market since WWII, the S&P 500 posted the best 1- and 3-month performances since that time. While we think that the *direction* of recent market movement makes sense, the *dimension* of that performance over such a short time period is mostly noise and cannot be reliably used to time investments.

Q: Will we see a “V” shaped economic recovery?

A: While there are economists predicting both “V” and “L” shaped recoveries, we find arguments against a rapid recovery of economic growth to be most compelling.

Historically, deep recessions have typically been followed by strong recoveries. The process of recession – consumers postponing their spending in order to build up savings; businesses allowing their inventory levels to decline – pushes the economy down, like a loaded spring. Once the fear and uncertainty are pulled away, the spring unloads and rapid growth ensues. But, two important factors undermine the global economy’s ability to rebound rapidly this time.

First, we are at the tail end of an increase in debt burden among consumers and financial firms which lasted several decades. The process of paying down that very high level of debt (“delevering” in investment parlance) will limit the ability of businesses, and especially consumers, to spend.

Second, the stress at financial institutions has caused a credit crunch, limiting the ability of consumers and businesses who do want to spend. While the Federal Reserve has made the provision of credit a top priority, the programs have had mixed success.

But underlying economic growth and the performance of investment markets, while of course linked, are often not contemporaneous. New technology and global integration should allow more profitability even with less economic growth, so this is likely a fine time for long term investors to invest.

Q: What is the biggest source of near-term risk in the US economy?

A: It will be difficult to sustain a rebound in the economy without consumers. The pace of job losses is slowing, but labor market conditions will stay weak for some time. On July 2nd, the DOL employment report was much worse than expected. Employers cut 467,000 jobs in June, 100,000 more than the average of forecasters’ expectations. The unemployment rate in June rose to 9.5%, the worst since 1983; but, as we remark elsewhere, the unemployment rate is a slippery statistic and is usually the last to improve.

Q: What is the biggest source of longer-term risk in the US economy?

A: Given the unprecedented level of monetary and fiscal stimulus, economists have raised concerns over the long-term impact of those programs. If the government tries to end the programs too soon, the fragile economic recovery may collapse. If the programs are maintained too long, higher interest rates and inflation may take hold.

For the most part, we believe the administration is taking the right approach by planning for the withdrawal of stimulus. By noting that many of the programs have built-in expirations and by telegraphing the process of ending other programs, the Federal Reserve and the Obama Administration are cautioning investors against becoming dependent on the stimulus. The actual implementation will determine whether this is successful.

Q: What are the chances of an inflation spike in the next two years?

A: With respect to consumer price inflation, the only place where inflation pressures are evident in the US in the near term is in commodities, which, by itself, would not likely boost the inflation rate of other goods and services. As of 12/31/08, the biggest (by far) component of the Consumer Price Index was housing, at 43%. The food and beverage category is a distant second at 16%. While high on people’s minds, energy is only 7.6% of the index.

Inflation can appear in other parts of the economy, but there is little danger given the low level of production in the economy. The output gap is the difference between actual economic output and the most the economy could produce given the capital, know-how, and people available. When actual output exceeds potential, demand for products and labor bids up prices and wages, fuelling inflation. When actual output falls short, competition for scarce consumers and scarce jobs puts downward pressure on inflation. We’re in the latter situation.

The Congressional Budget Office estimates that the gap

topped 6% in the first quarter of this year and will average more than 7% in 2009, which would be the largest figure on record. Given that core inflation (excluding food and energy) was so low when the recession began, it is not a stretch to believe that, with so much slack in the economy, inflation could even turn negative (the rolling 12 month CPI, in fact, has been negative over the past few months). The Federal Reserve statement released after its policy meeting on June 24th notably omitted the warning from its three prior meetings that “inflation could persist for a time below rates that best foster economic growth and price stability”. With the economy gradually finding a bottom and the rate of decline in home prices slowing, the chances of a downward spiral of deflation and economic activity have diminished, the Fed now confirms. Still, pessimists will continue to worry about deflation as long as a large output gap persists.

Q: What does this mean for my investment strategy?

A: This is one of our favorite topics and we look forward to sharing our views with our clients one-on-one. We have made and will continue to make some changes to some clients’ strategic allocations, increasing fixed income allocation, accepting more credit risk in municipal bonds, increased allocation to private real estate and private equity, and global public equity allocations more in line with global market capitalization. It should be no surprise that we continue to favor a long-term perspective which allows clients to make high-probability long term investments without worrying too much about the short-term noise in capital markets. From an investor’s perspective, the current capital markets are far more attractive (reasonable prices and expectations for future growth) than they were in 2007. While we do not attempt to time markets, the characteristics of the current environment are similar to past periods which offered above average returns. The same opportunities may be present today.

Jason Thomas, Ph.D.
Chief Investment Officer

Summary of Q2, 2009 Manager Research Activity

Below is a tally of the existing managers we have met with and investment opportunities we have considered over the quarter. While we receive unsolicited calls or emails daily, we only list those investment opportunities which pass an initial screen and which we then review in depth.

Traditional	9
Hedge Fund	8
Private Equity	6
Real Estate	24
Other	7
Total	<u>54</u>

Selected Manager Research Activity

In the 2nd Quarter of 2009, activity included initial investment decisions for the following specific opportunities. The investments below may not have been considered for every client’s portfolio. We nevertheless describe them to show all our clients the breadth of our investment research which supports our work for all clients. We have declined to identify them by name to avoid inadvertent publicity for the specific investment situation.

Opportunity	Hedge fund focused on TALF investments
Decision	Approved.
Notes	<ul style="list-style-type: none"> • One of the largest fixed income managers in the world, with a 35 year track record managing asset-backed securities (ABS); • TALF is a \$200 billion program to provide non-recourse, low cost financing for purchases of AAA-rated ABS; • Manager’s ability to evaluate credit risk, combined with government participation, creates an unusually attractive opportunity.

Opportunity	Real estate co-investment
Decision	Approved.
Notes	<ul style="list-style-type: none"> • Sponsor is a privately held commercial real estate development, project management, investment, and property management firm which provides comprehensive real estate services to institutional and individual clients. • Project is a 231-unit Class A apartment project in San Jose, California. Built in 2004, the project is 90% leased with features among the highest standard in the market. • Both the real estate (product quality, product location, acquisition cost) and deal structure were compelling.

Inflation on the Horizon?

Central banks, including the Federal Reserve, have injected massive amounts of liquidity into their respective economies over the last several months to battle the recent meltdown in the credit markets. Despite this rapid growth in the money supply, we believe that in the aftermath of a pending recovery, inflation is more likely to be contained than not. Current high levels of unemployment (US rate at 9.5%), a transition to a climbing personal savings rate (US at 6.9%), low capacity utilization (US at 68.3%) and a still modestly capitalized global banking system are likely to act as a buffer against a rapid and sustained rise in inflation. Still, we acknowledge that future monetary policy mistakes (e.g., failure to remove some liquidity), the continuation of large federal budget deficits (12% of US GDP for fiscal year 2009) and US Dollar depreciation could result in higher inflation rates over the next several years.

We are reviewing inflation sensitivities in client portfolios across various investment sectors, as higher inflation levels in the past have had a variety of adverse impacts, including:

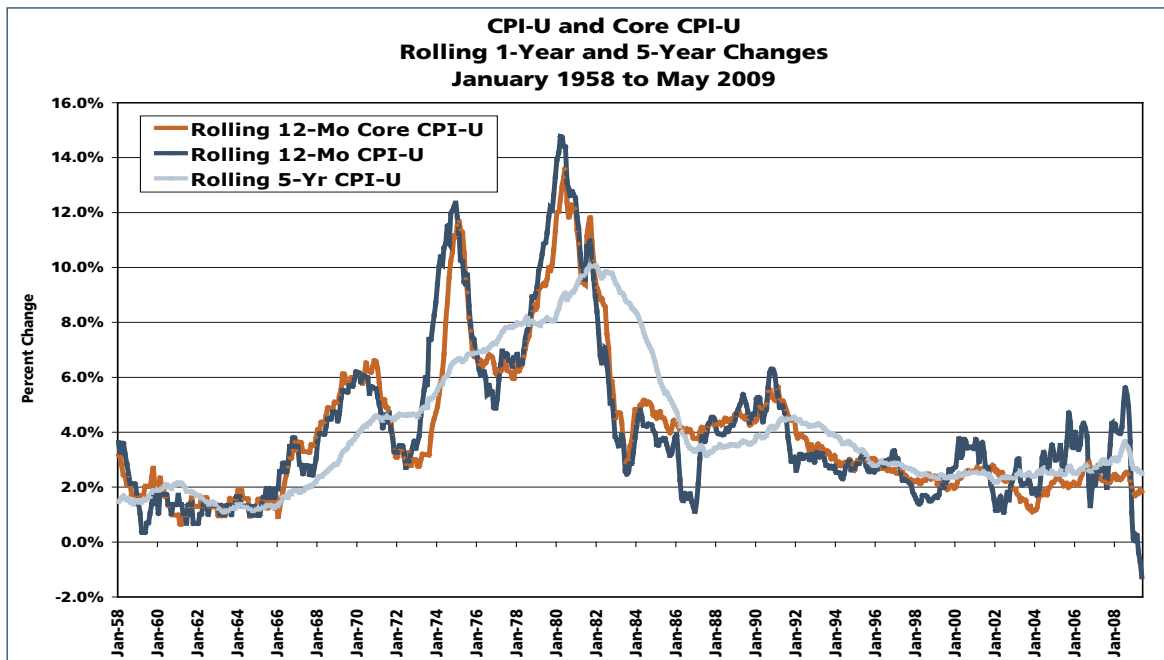
- generally higher interest rates
- greater required inflation premiums
- lower operating profit margins; and
- depressed inflation-adjusted profits.

We will look to hedge inflation risks for specific investment sectors if we believe that hedging costs are priced effectively relative to our assessments of possible inflation losses.

Past US Inflation Experience: As evidenced in the graph below detailing changes in the CPI-U¹, inflation levels over the past 25 years have been rather muted since the Federal Reserve (under the direction of Paul Volcker in the early 1980's) broke the back of then persistently high US inflation rates. Over the last 25 years ended May 2009, multi-year annualized CPI-U changes consistently have been in the 2.5% to 3.0% range. Since the early 1980's, the Federal Reserve has conducted monetary policy effectively in both expansionary and contracting periods in a manner that has avoided a sustained upsurge in inflation or the occurrence of actual deflation (falling prices).

The modest inflation experience for the US over the last few decades was aided by a global expansion of trade and low import price inflation (1.15% annualized over 20 years) generally placing a lid on domestic prices; the absence of wage push inflation experienced in the 1970's; a solid increase in output per hour (annualized 2.2% over 20 years ended

¹ Consumer Price Index- All Urban Wage Earners. The CPI-U represents a price index for a standard basket of goods and services purchased for consumption by urban households. Core CPI-U is calculated from the base CPI-U Index after removing food and energy price components, which display more price volatility.



Source: Bureau of Labor Statistics

May 2009) allowing for non-inflationary wage growth; and relatively mild economic cycles.

While the Fed, since the early 1980's has been very vigilant about containing inflation to the upside and has more recently identified a preferred longer term 2% inflation target, its focus during both the 2001 and the current 2007-2009 downturns has been to avoid deflation. For the period March 2009 to May 2009, year-over-year changes in CPI-U were actually negative, the first such declines since 1955. Decreases in energy prices (down 27% for year ended May 2009) drove CPI changes to negative levels as Core CPI (excluding food and energy) changes have remained centered about a 2% annualized over the last several years.

Market, Inflation, and Interest Rate Expectations: With the introduction of Treasury Inflation Protection Securities (TIPS) in 1997, the capital markets have offered a direct means to assess investor consensus expectations as to future inflation rates. TIPS offer both a real coupon payment plus inflation adjustments determined by CPI-U changes. TIPS real interest payments (excluding inflation adjustments) are contrasted against interest rates of conventional US Treasuries to obtain *breakeven* inflation-adjusted yields. As an example, if the 10-year Treasury yield is 3.50% and the 10-year TIPS real yield is 1.85%, then the break-even inflation adjusted yield (BIY) for the next 10 years would be 1.65%. If CPI-U inflation then were to average above 1.65% over the succeeding 10 years,

then the total cumulative return of the 10-year TIPS would be above that of the comparable Treasury note.

The 10-year BIY was relatively stable from 2004 to the 3rd quarter of 2008, when the credit crisis fully erupted. From approximately 250 basis points in mid-2008, the 10-year BIY dropped to a slightly negative level in November 2008 as investor consensus coalesced around a disinflationary forecast against the backdrop of negative real US GDP growth accompanied by a full blown credit crisis. The drop in the 10-year BIY was partially produced by the very strong investor preference for the liquidity and safety of conventional Treasuries that drove 10-year Treasury yields down to the low 2% range toward the end of 2008.

With the worst of the credit crisis apparently in the past, investor inflation expectations have picked up, although the present BIY level of 170 bps in early July, 2009 is still below the average range prevailing before the 2008 credit crisis. As seen in the graph below, the BIY can move substantially upward or downward in a relatively short time period, implying that investor inflation expectations can change very rapidly.

Currently, investors expect that the Fed will reverse course and begin to raise its targeted Fed Funds rate in 2010. The futures markets indicate that the Fed Funds rate will rise to 2% by February 2011 from the current level of 0.25%. We, likewise, expect the Fed to reverse its current easing policy stance and

Inflation breakeven yields (in basis points): 10-yr maturity Treasuries and TIPS. January 2003 to June 2009.



Source: Bloomberg.

to remove excess liquidity from the markets, but slowly. This reversal process is likely to take several quarters as it appears that the global economic recovery, while positive, may not be especially strong over the next few years.

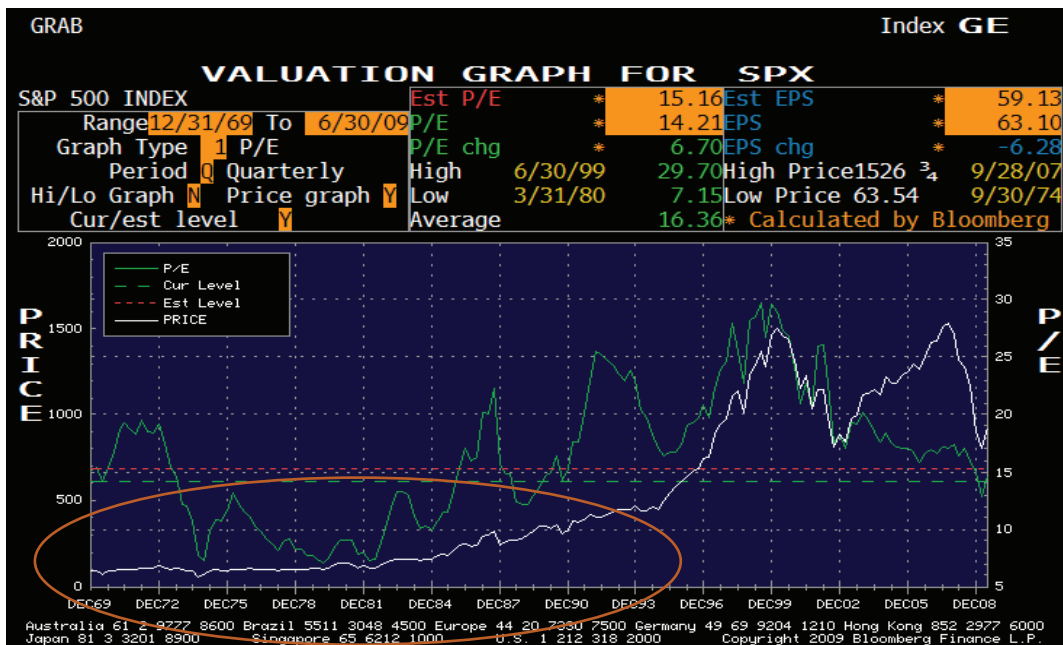
With a rise in shorter-term rates, longer-term investment-grade yields are likely to climb from currently low absolute levels over the next 2 to 3 years. The 10-year swap rate², which was 3.70% as of early July, is projected through forward curve analysis to rise to 4.65% in 3 years. Under such circumstances of moderately rising yields, intermediate-term fixed income portfolios could suffer moderate price declines of 5% to 7%. We expect that credit spreads could diminish along with recovering US and global economies, implying that yield increases for non-Treasury sectors will not move upward to the same extent as possible Treasury yield increases.

Because higher inflation rates normally translate directly into higher interest rates and associated negative price changes for fixed income investments, it is more straightforward to anticipate the impact of inflation on fixed income investments than it is for equities. Still, while linked, interest rates and inflation are subject to different forces and a straightforward connection cannot be predicted. We'll explore this complex relationship further in future *Insight* articles.

² Swap yields are representative of interest rate contracts among financial institutions and reflect the generally high credit ratings of the counter-parties (i.e., commercial banks and brokers).

For equities, with inflation largely contained over the last 25+ years, changing investor inflation expectations and any related price effects on equities need to be viewed against a backdrop of generally rising profit margins, broader revenue diversification for companies outside the US, and the price support for the public equity markets from higher levels of private equity transactions.

When inflation surprised to the upside in the 1970's, not only did equity prices remain mostly static but price/earnings (P/E) ratios dropped to the 7X range over several extended time periods as profit margins were impacted negatively due to substantial cost increases, including wages, that outpaced lagged revenue increases. This reduced range for P/E ratios is evidenced by the graph below where the S&P 500 Index P/E ratio did not consistently exceed 10X from 1973 to 1984. Unlike the generally positive US economic performance from the early 1980's to 2007, the 1970's were defined by the frequency and severity of economic cycles (recessions in 1970, 1973-1975 and 1980). Equity price performance in the 1970's was influenced by factors specific to that time period: two oil embargoes; expansive monetary policy; wage-induced inflation; and substantial US Dollar depreciation. The P/E ratio for the S&P 500 Index was estimated to be 14.2X in early July 2009 versus a historical average about 15X. For equity prices to rise from current levels, inflation rates will likely have to remain at moderate levels (i.e., 3% to 4% range). We think they will.



Source: Bloomberg.

Hedging Inflation Sensitivities in Client Portfolios: For fixed income allocations, we are evaluating reducing the negative price effects from *unexpected* increases in inflation rates through the following means:

- Hedging against an inflation-induced increase in interest rates using structured securities or inflation-sensitive derivatives;
- Increasing participation in an economic recovery (which might stoke inflation) through a moderate increase in credit risk;
- Adding non-US fixed income with unhedged currency exposures to take advantage of possible US Dollar depreciation.

In the broader portfolio, we expect inflation protection from:

- Non-US equity markets with unhedged currency exposure and, especially, commodity-exporting emerging markets;
- Real estate; and
- Direct investments in commodities.

Our Investment Committee will continue to monitor US and global economic developments to ascertain trends in inflation developments with a focus on the possibility of significant changes in inflation levels. To the extent possible, we will adjust overall portfolio allocations and use inflation hedges within specific sectors to offset potentially adverse price changes resulting from higher-than-expected inflation rates.

Carl Forster
and Rich Palmer

Mortgage Choices: Mid-2009

As our long-tenured clients know, we have advised for many years that over a full interest rate cycle, we expect they will benefit by avoiding long-term fixed rate mortgage products in favor of short-term fixed or, better still, fully adjustable mortgage products.

http://www.aspiriant.com/library/insight/05q2/article05_pg01.html

The fundamental premise at work is that lenders charge too great a premium for assuming interest rate risk. With fully adjustable mortgages, the risks are having payments that tend

to vary monthly, and are sometimes higher than the fixed rate alternative would have been. With short-term fixed loans, the chief risk is that the fixed rate period may expire during an unfavorable interest rate climate. Those clients who are willing to bear that risk themselves avoid paying that premium. We expect that they will enjoy a positive net present value, given the alternative uses available for their funds.

With short term rates at historic lows, clients with fully adjustable rate mortgages have enjoyed an almost guilty pleasure opening the monthly mortgage bill lately. In a number of instances, we've seen the monthly payment due on a \$1 million mortgage fall below \$1,000 (implying an annualized rate of less than 1.2%)!

However, in the current climate, with talk from some quarters of the potential for higher future inflation, many clients are asking about the wisdom of locking in a fixed rate, now, before rates generally increase. Other clients are in need of new loans for home purchases. This article discusses strategy for selecting a mortgage product in these uncertain times. First we'll look at refinancing an existing mortgage; then introduce a new tool – interest rate swaps; and then discuss loans for new purchases.

But first a few comments about the mortgage environment.

Residential real estate values have fallen famously in the past year. The decline can complicate the mortgage refinancings in a couple of ways. First, most lenders have reduced the loan-to-value ratio they are willing to accept on refinancings (as opposed to purchases). Rather than lend 80% of the value of a home as they once did, lenders have reduced their limits to 55% - 65% ... for the time being. From the lenders' perspective, it's very difficult to have confidence in appraisal value of properties, in part because the calculation of value based on comparable sales is frequently based on stale data – itself the result of the dramatic slowdown in the number of sale transactions. Most lenders continue to be comfortable lending 80% of the transaction price on a home *purchase*, however, reasoning that the price negotiated in an arm's length transaction is a legitimate indication of value.

The second problem is that appraisers are being far more cautious in the values they compute, recognizing that they are under heightened scrutiny from regulators and the banks that engage them.

As a result, for homes financed in the past couple of years, it can be more difficult to qualify for a new loan of the same size as under the old standards. Some lenders have revamped their

Tax Breaks

While these opportunities are not likely to be available to Aspiriant's clients directly because of the income limitations, they could be interesting for some children of our clients or other family members.

First-Time Homebuyer Tax Credit Advance

The First Time Homebuyer Credit (up to \$8,000 for taxpayers qualifying under certain income ceilings) can be used as additional down payment funds by FHA borrowers. This advance cannot be used to meet the 3.5% minimum down payment required by FHA, or result in cash back to the borrower, but can be applied against other escrow charges. Several state (CO, DE, ID, KY, MO, NJ, NM, OH, PA and TN) housing agencies offer similar programs to homebuyers.

New Car Purchases in States with No Sales Tax

Taxpayers under certain income ceilings can deduct sales taxes paid on the purchase of a qualified motor vehicle on their 2009 income tax returns. This deduction is available whether the taxpayer otherwise itemizes deductions or not. Recently, the IRS announced that purchasers of such vehicles in states that do not have *sales* taxes will be allowed a similar deduction for state or local government fees assessed on the purchase of the vehicle, to the extent that they are based on the first \$49,500 of the vehicle's sales price.

underwriting criteria to require greater income-to-payment ratios. This can be troublesome for retirees or entrepreneurs whose businesses are struggling in the current recession.

Refinancing An Existing Loan

If you already have an adjustable rate mortgage, or a mortgage with an initial fixed rate period about to expire, causing the rate to begin floating, this is a good time to consider your refinancing alternatives. Although fixed rates are currently low by historical standards, the rate you'd get on new fixed rate loan would very likely be higher than what you're rolling off of, resulting in an increase in your monthly payments. You might be willing to accept this higher expense if you think interest rates will increase materially in the near future (we don't) and remain elevated for some time, and if you expect to retain the loan for many years. On the other hand, if you either expect to retire the loan within the next couple of years (before any sustained increase in interest rates), or are confident that rates won't materially increase over the life of the loan, you should consider an adjustable rate mortgage product ... which brings us back to our *general* recommendation.

Most adjustable rate loan products have interest rate ceilings (some lenders have introduced interest floors, a feature that was not common in the past). We've seen these ceilings set at 10-12% on new loans, so they would apply only in the face of drastic interest rate increases.

Interest Rate Swaps. Interest rate swaps are derivative contracts that have been around the financial world for a long time, though not available at a scale useful to residential mortgage holders. Until now!

With a swap, a borrower can, in essence, convert the variable rate on his or her loan to a fixed rate for a set number of years (the underlying variable rate loan remains in place and is unaltered by the swap). For example, a client whose mortgage rate was recently 1.16% (1 month LIBOR plus 0.85%) was offered the choice of fixed rates, using a swap contract, at 3.80% (for 5 years), 4.28% (for 7 years), or 4.64% (for 10 years). Incidentally, a swap can be used with any loan with a variable rate - a mortgage, a home equity loan, business loan, etc.

This client's loan was made several years ago when banks were offering loans with skinny margins to win business. Those days, of course, have passed, and new loans have much more substantial margins. As a result, the swap rates quoted above were 1.45 - 1.85% *lower* than those available in a contemporary bank refinancing.

But while this attractively priced variable rate loan can be converted into a relatively attractive fixed rate loan, is the swap attractive in absolute terms? Considering the 5 year swap (fixed rate of 3.80%), unless the client expects the one month LIBOR rate to *average* more than 2.95% over the next five years (up from 0.31% now), the client would prefer the current variable rate loan over the swap rate. As discussed in the nearby inflation article, we think that very short term rates on low risk credits (inter-bank loans in this case) are not likely to reach those levels.

If you are interested in exploring what swap rate would apply to your adjustable rate loan, contact your client service team. To arrange for you to receive a quote, we'll need the following information on your current loan:

- the index
- the margin (spread above the index)
- the ceiling and floor levels; and
- whether it is amortizing or interest-only.

We can request quotes for several contract durations (e.g., 5 years, 10 years). There are some structural and tax

“Greetings from the SEC”:

The SEC has recently announced that it will be confirming investment account balances directly with clients of Registered Investment Advisors, like Aspiriant. The Commission intends this to be a new practice in its examination process. So our clients should not be alarmed by the letter they may receive when Aspiriant undergoes a routine SEC examination. A copy of the “account confirmation letter” the SEC will send, can be found here: [SEC Account Confirmation Letter](#)

complications which we can review with you; but you may still find the opportunity worthwhile relative to a straight-forward refinancing.

Loans for New Purchases

From their current low levels, it seems likely that interest rates will increase, somewhat, in the years to come, though it's extremely difficult to be a great deal more specific as to pacing. With that in mind, though, locking in today's low rates is likely to be a sound, cautious strategy if the holding period is sufficiently long.

On the other hand, if the likelihood is high that you'll sell the property or at least retire the note within the next couple

Stock Options: Call Writing Made Easier

As of June 17, the SEC will permit vested stock options to be used as collateral for “covered call” writing. As we discuss in our book on *Managing Concentrated Stock Wealth*, Aspiriant would occasionally use call writing as a low risk means of managing concentrated stock positions for our senior executive clients. In the past, the option writer either had to post long shares or other assets as collateral. This relaxation of former restrictions will make covered call writing easier and more accessible for holders of even modest stock option positions.

of years, the expected net present value advantage of an adjustable rate or a fixed for a term, interest-only loan could be attractive. We believe 30-year jumbo mortgage rates are somewhat higher than they should be due to reduced trading liquidity in the secondary market and the flight to quality that has driven Treasury prices up (and their rates down). As these technical factors resolve, we believe jumbo rates won't rise as much as interest rates generally, and might even decline.

Your client service team is eager to help you evaluate your refinancing alternatives in the context of your overall financial circumstances. Please contact us if this topic of interest to you.

Mike Fitzhugh

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PERFORMANCE RESULTS

			2nd Quarter 2009	12 Months to 6/30/09	3 Years Annualized to 6/30/09
Fixed Income	Taxable	Benchmark Index: Barclays Capital US Aggregate Bond	1.8%	6.1%	6.4%
		Benchmark Fund: iShares Barclays Aggregate Bond	1.7%	6.0%	6.3%
	* (Nominal)	PIMCO Total Return Institutional	4.7%	9.3%	8.4%
		Vanguard Intermediate Term Investment Grade	8.2%	1.3%	4.5%
	(Inflation-Protected)	PIMCO Real Return Institutional	4.0%	-1.3%	5.5%
		Vanguard Inflation Protected	0.3%	-2.3%	5.4%
	Tax-Exempt	Benchmark Index: Barclays Capital US Municipal Bond	2.1%	3.8%	3.9%
		Benchmark Fund: iShares S&P National Muni Bond	1.6%	3.8%	N/A
	(Short duration)	Vanguard Limited Term Tax Exempt	1.0%	4.5%	4.3%
	(Intermediate)	Vanguard Intermediate Term Tax Exempt	1.7%	4.3%	4.2%
		Nuveen Intermediate Duration Muni Bond	3.1%	2.6%	3.1%
(Long duration)	Vanguard CA Intermediate Tax Exempt Admin	1.3%	1.7%	3.0%	
	Vanguard High Yield Tax Exempt	5.2%	-0.3%	1.9%	
	Nuveen High Yield Muni Bond Class	11.1%	-24.2%	-10.2%	
Real Estate	Global	Benchmark Index: Dow Jones Global Select RESI	32.6%	-40.3%	-15.8%
		Benchmark Fund: 60% SPDR DJ Wilshire Intl RE/40% Vanguard REIT Index ETF	31.7%	-38.9%	N/A
		DWS RREEF Global Real Estate Sec	35.6%	-35.1%	N/A
	US	Benchmark Index: Dow Jones US Select REIT	31.5%	-45.3%	-19.7%
		Benchmark Fund: iShares Dow Jones US Real Estate	28.8%	-42.5%	-19.1%
	DWS RREEF US Real Estate	30.9%	-43.4%	-17.5%	
Energy Infrastructure	Benchmark Index: Citigroup MLP Index	16.7%	-12.4%	1.8%	
	Kayne Anderson MLP	12.8%	-11.8%	2.2%	
Large Cap: Domestic	Broad Market	Benchmark Index: Russell 3000	16.8%	-26.6%	-8.3%
		Benchmark Fund: iShares Russell 3000	16.7%	-26.5%	-8.4%
		DFA US Core Equity 2	19.3%	-26.7%	-9.8%
		DFA TA US Core Equity 2	18.5%	-25.8%	N/A
		Vanguard Total Stock Market	17.0%	-26.2%	-8.1%
	Blend	Benchmark Index: S&P 500	15.9%	-26.2%	-8.2%
		Benchmark Fund: iShares S&P 500	15.9%	-26.1%	-8.2%
		Schwab S&P 500 Institutional Select	15.8%	-26.2%	-8.2%
		Schwab 1000 Select	16.1%	-26.5%	-8.1%
	*	Tax Managed Index Separate Account (Aperio/Parametric)	<i>Return based on individual client's portfolio</i>		
	Value Style	Benchmark Index: Russell 1000 Value	16.7%	-29.0%	-11.1%
		Benchmark Fund: iShares Russell 1000 Value	16.7%	-28.9%	-11.1%
		Berkshire Hathaway B	2.7%	-27.8%	-1.6%
		DFA Large Cap Value	23.6%	-31.9%	-13.0%
*	DFA Tax Managed Marketwide Value	24.4%	-30.7%	-13.1%	

* Preferential Access Through Aspiriant

Returns are stated net of manager's fees, but before Aspiriant fees. All fund returns above are stated including the reinvestment of dividends and capital gains. Figures in bold reflect performance equal to or better than benchmark fund or, in cases where the benchmark fund's performance is not available, performance equal to or better than benchmark index.

PERFORMANCE RESULTS

			2nd Quarter 2009	12 Months to 6/30/09	3 Years Annualized to 6/30/09
Large Cap: Developed Overseas	<i>Blend Style</i>	Benchmark Index: MSCI EAFE	25.8%	-31.0%	-7.5%
		Benchmark Fund: iShares MSCI EAFE ETF	25.4%	-31.2%	-8.0%
		DFA International Core Equity	31.3%	-28.8%	-7.3%
		DFA TA World Ex-US Core Equity	33.2%	-26.5%	N/A
		Vanguard Total International Stock Fund	27.3%	-30.5%	-6.1%
	<i>Value Style</i>	Benchmark Index: MSCI EAFE Value	30.3%	-28.4%	-8.1%
		Benchmark Fund: iShares MSCI EAFE Value	29.6%	-29.0%	-8.7%
*	DFA International Value	33.9%	-30.2%	-7.5%	
*	DFA Tax Managed International Value	33.7%	-28.3%	-6.5%	
Small Cap: Domestic	<i>Blend Style</i>	Benchmark Index: Russell 2000	20.7%	-25.0%	-9.9%
		Benchmark Fund: iShares Russell 2000	20.7%	-24.8%	-9.8%
	*	DFA US Small Cap	25.9%	-21.9%	-9.9%
	*	DFA Tax Managed US Small Cap	22.9%	-28.4%	-12.0%
	*	DFA US Micro Cap	24.8%	-23.6%	-11.8%
	<i>Value Style</i>	Benchmark Index: Russell 2000 Value	18.0%	-25.2%	-12.1%
		Benchmark Fund: iShares Russell 2000 Value	17.9%	-25.1%	-12.1%
*	DFA US Small Cap Value	23.9%	-27.7%	-14.2%	
*	DFA Tax Managed US Targeted Value	23.0%	-31.6%	-15.0%	
Small Cap: Developed Overseas		Benchmark Index: MSCI EAFE Small Cap	34.5%	-27.8%	-9.5%
		Benchmark Fund: SPDR S&P International Small Cap ETF	33.2%	-29.0%	N/A
	*	DFA International Small Company	31.5%	-28.5%	-7.1%
	*	DFA International Small Cap Value	31.8%	-27.0%	-7.0%
Emerging Markets		Benchmark Index: MSCI Emerging Markets	34.8%	-27.8%	3.3%
		Benchmark Fund: Vanguard Emerging Markets ETF	34.2%	-28.2%	2.5%
	*	DFA Emerging Markets Core Equity Portfolio (inception date 4/5/05)	40.2%	-21.1%	5.6%
Commodities		Benchmark Index: Goldman Sachs Commodity Index	19.2%	-59.7%	-15.2%
		Benchmark Fund: iShares GSCI Commodity-Indexed Trust	19.2%	-59.4%	N/A
		GSCI Enhanced Commodity Total Return Strategy Index ETN	18.5%	-54.3%	N/A
		iPath GSCI Total Return Index ETN	19.8%	-60.7%	-16.1%

* Preferential Access Through Aspiriant

Returns are stated net of manager's fees, but before Aspiriant fees. All fund returns above are stated including the reinvestment of dividends and capital gains. Figures in bold reflect performance equal to or better than benchmark fund or, in cases where the benchmark fund's performance is not available, performance equal to or better than benchmark index.

The indices and benchmark funds included herein have been selected to allow for comparison of an individual investor's performance to that of certain well known and widely recognized indices and funds. The inclusion of an index or benchmark fund should not be considered a representation by Aspiriant that it is an appropriate benchmark, in all client circumstances, for specific securities, or against overall portfolio performance, nor is it a guarantee of individual investor performance that is greater than the benchmark. The performance and volatility of an individual investor's portfolio may be materially different from those of the indices and benchmark funds. Further, an individual investor's holdings may differ significantly from the securities that comprise the indices and benchmark funds. An investor cannot invest directly in any of the above indices, but could potentially invest in the benchmark funds. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information (including performance statistics) available from public sources. This document is provided solely for informational purposes and is not intended to be an offer or solicitation, or the basis for any contract to purchase or sell any security or other instrument, or for Aspiriant to enter into or arrange any type of transaction as a consequence of any information contained herein.