

January 13, 2010

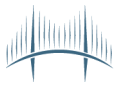
World financial markets experienced another year of high drama in 2009. As the year began the news was not good. More high profile corporate failures continued to feed a crisis of confidence. Falling home prices, surging unemployment and falling corporate earnings were taking their toll. Government programs designed to increase liquidity and stabilize world economies appeared to some to be misguided and ineffective. Investor confidence continued to dim and the markets dropped. As March began, the Dow Jones Industrial Average had fallen by about 25% for 2009. Despite a 50% drop in equity prices since late 2007, an increasing number of skeptics predicted that “the other shoe was about to drop.”

<u>% Return as of 6/30/09</u>			
<u>Equity Indexes</u>	<u>2nd Q</u>	<u>1 Yr</u>	<u>3 Yrs</u>
S&P 500	15.9	-26.2	-8.2
Russell 2500	20.3	-26.7	-9.3
MSCI EAFE	25.9	-31.0	-7.5
Emerging Market	34.8	-27.8	3.3
DJ Wilshire REIT	31.5	-45.4	-19.7
<u>Bond Indexes</u>			
TIPS	0.7	-1.1	5.8
Aggregate	1.8	6.1	6.4
Governments	-2.2	6.6	7.3
Mortgages	0.7	9.4	7.9
Investment			
Corporate	10.5	3.8	4.5
Long Corporate	14.8	4.0	4.2
High Yield	23.1	-2.4	2.1
Municipals	2.1	3.8	3.9
<u>Cash Equivalents</u>			
3-Month T-Bill	0.05	0.6	3.0
<u>Consumer Price Index</u>			
	0.7	-2.2	1.8

Financial markets, like many things are largely about expectations. Expectations were so low that anything short of a major depression would have been an improvement. Then, the global stimulus programs began to take hold. Credit markets began to show some signs of life. The “other shoe” had not dropped. Most financial assets surged given the depressed valuations. As each month passed, the economic data, while still bad, continued to exceed low expectations. Although still down, corporate earnings handily exceeded overly pessimistic forecasts. Job cuts continued but at a diminished rate. Credit became more available as fear subsided. The markets continued to climb “the wall of worry.” In the end, from the March lows, the markets had their largest gain in decades. For the calendar year, most markets turned in their best performance since 2003. Investors should always be aware of expectations, especially when either very high or very low. This is when there is the greatest potential for error.

Domestic Equities: Stocks of all types participated in the advance. The S&P 500, an index of large U.S. stocks, rose 6% in the fourth quarter. For the year, the advance was a strong 26.5%. Smaller stocks also did well. The Russell 2500, a measure of smaller company stocks, advanced 5.1% for the quarter. For the year, it powered ahead by 34.4%.

International Equities: Foreign stocks were not left behind. Aided by the global recovery as well as stronger currencies, the MSCI, an index of international developed countries, rose 2.2% for the quarter. For the year, the index jumped 32.5%. Emerging markets, stocks of companies located in less developed countries, were some of the worst performers of 2008. 2009 was a far different story. Emerging markets stocks rose 8.6% for the quarter and rocketed up 79% for the



year. While the performance of emerging markets is dramatic, bear in mind that advances of this magnitude cannot be sustained indefinitely.

Fixed-Income: Expectations were also a key feature of bond performance in 2009. Government bonds were the darlings of 2008. Expectations were high in spite of low yields. As fear subsided, some of those gains were erased. The Barclay's Government Index edged down 1% for the fourth quarter. For the year, it lost 2.2%. Corporate bonds and high-yield bonds were a different story. These bonds endured a difficult 2008. As the recovery loosened credit and lessened the chance of default, these bonds advanced strongly. The Barclay's Corporate Index rose 1.4% for the quarter. It marched to an 18.7% gain for the year. The bounce back in high-yield bonds was even more dramatic. The Barclay's High-Yield Index advanced 6.2% for the quarter. For the year, high-yield bonds shot up 58.2%. This has apparently emboldened some investors and bond fund inflows have surged. Given that current yields are at historic lows, this is cause for some concern.

Real Estate: Unrealistic real estate values were one of the key components of the credit crisis. This was compounded by the fact that most commercial real estate transactions rely on some type of mortgage financing. This resulted in very poor returns in 2008. As with other asset classes, publicly traded REITs benefited from the thawing of credit. The Dow Jones REIT Index rose 9.2% for the fourth quarter of 2009. It increased 28.5% for the year.

Well-known investor Warren Buffett once said, "Solid principles can get one through almost anything." Our investment letter from one year ago, near the worst part of the crisis, stated; "In some ways the world continues to change but our investment principles remain unwavering. We believe in mathematics, diversification and an appreciation of the stewardship of wealth." We obviously agree with Mr. Buffett on this point.

Of course, blind faith is no answer. While asset prices have appreciated, the economy remains delicate and the recovery tentative. We remain committed to rigorously applying these principles to help achieve your goals no matter what the future may bring.

Communication is important, particularly during times like these. I look forward to talking with you soon regarding your specific situation. In the meantime, please call with any questions or concerns you may have.

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Source of data – – *U.S. Department of Commerce; Bureau of Economic Analysis. Wall Street Journal, Rothschild Market Review, Bureau of Economic Analysis, Lehman, Bloomberg, mpi Stylus, Markit ABX indexes. The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. 3 year performance data is annualized. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. There can be no assurance that the investment objectives will be met. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets.

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