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180

A Reverse Angle, Well Balanced

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Special points of interest:

- The Message from our President John Scott
- SEI Regulation and Recover, "A Volatile Mix"
- SEI Super Bowl Indicator
- Do you know someone that needs our help?

A Peek at future articles to come.

Cedrus 180°, a new way of thinking

Finishing Well, Life After 50

Contentment vs. Financial Freedom

Why Family Meetings Are important

Conflicts of Interest in the Financial World

The Message

Banking Regulation and Politics vs. the Economy

Experience, it seems should be at the crux of what we bring to our clients. Right or wrong we should always learn something. We were pleased to review our correspondence to all of you, our valued clients, on 3/5/09 detailing media driven capitulation and how it historically marked bottoms of stock market declines. We missed by 4 days, but not bad! What is really more important though is the point of how much the expanding media sources are intensifying emotions, good or bad, and what this bodes for investors going forward. At Cedrus we are not market timers but when obvious trends develop, we like to let you know in search of moving you closer to contentment, which is all important to us. The money managers we deploy through SEI and their oversight of these managers should be enough to make us content. However, a little insight sometimes helps us sleep better at night as well.

It is my opinion that the only thing holding this economy back from absolutely rocking is the inability of banks to lend to businesses both big and small. The cash on the sidelines is still enormous and pent up demand is a given. We are a leverage driven economy and until leverage can be obtained, we will continue to flounder and the unemployment rate will rise. It is really that simple. The problem is that our current leadership in Washington in all 3 branches, has decided to "bank", no pun intended, their political capital on the average American's notion that all the Wall Street banks were responsible for the recession. While this is certainly a noble cause, I believe that American's have short memories and care more about jobs

and their wallets than mistakes made by Lehman Brothers or AIG. I think we can all agree that such a message was sent to Congress by the results of the MA election for Ted Kennedy's long held seat.

The stock market was continuing its historic rise since last March. Then the day after this January's election our leadership's comment's showed a lack of concern for the result of that election and that they would continue to find ways to enact more regulation on banks. That day the market began its current 10% plus correction. Ouch! Now if that was not a clear signal, what is? If banks can't lend now, what would even tougher regulation do to our limping economy?

Here is how I see this issue being resolved over the next several months. I believe there are 2 possible scenarios that will play out.



1. The current administration and party leadership will continue to "toe the line" on this gamble in which case, the economy will continue to drift, unemployment will rise even more, and they will lose a majority in the Senate and House in November 2010. The stock market will start actually rising 2 months before the election once the institutional managers are convinced of the change over anticipating a more bank friendly Congress.

2. Political leaders will fear the losses in the impending election and thus discard the insistence on even more banking regulation probably sometime this spring, in hopes of a market rally, banks beginning to lend again, and some possibilities of lower unemployment rates.

Either way, we believe it should be a great year for stocks. Cedrus and SEI will work diligently to help you participate in any gains that might be forthcoming.

I hope you find the 2 articles from SEI helpful reading as well. The 1st article talks about regulation

Banking Regulation and Politics continued.....

and its effect on the economy. The 2nd discusses the highly accurate Super Bowl predictor! As I write this the New Orleans Saints won 2 days ago, so rest assured that I awaited the results of the game before I wrote my commentary above.

More to come next month on regulation and how it can actually help our portfolios.

We value your business

John A Scott

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SEI Regulation & Recovery A Volatile Mix

Concerns about potential financial market regulation and rumbles out of Washington indicating that Federal Reserve Chairman Ben Bernanke may not be guaranteed a second term served as a catalyst for a market plunge in the closing weeks of January. China's central bank added to the fray with its decision to limit lending in an effort of head off inflation, and weak economic data out of Europe further fueled the selloff. While the purely economic issues cause us little concern—for the past few quarters, we have noted that we don't expect the recovery to come with a smooth upward trajectory—the prospect of increased regulation is something we have highlighted as a potential risk to recovery.

President Obama's plan for separating banks' proprietary trading from their lending activities—nicknamed “the Volcker Rule” after Paul Volcker, the former Federal Reserve chairman who has a long history championing banking regulations—is intended to limit the risks that banks would be able to take, such as using deposits to invest in speculative ventures. The regulations would not completely separate investment banking and commercial banking, but are a step in that direction. Mr. Volcker's desire to limit these activities stems from his belief that since bank deposits are insured by the federal government, banks engage in higher-risk trades.

The Volcker Rule reflects the concerns of governments in the U.S., the UK and other developed markets that are wary of experiencing another financial meltdown like that seen in 2008. To that end, they are looking to protect consumers by separating the risky aspects of financial institutions' business (such as proprietary trading) from the

more stable businesses (like deposit-taking and lending). While no one expects reinstatement of Depression-era regulations such as the Glass-Steagall Act, which separated commercial banking from investment banking in an effort to protect consumers, the market does fear that the proposed regulations will negatively impact the profitability of financial institutions as well as limit their ability to attract and retain talent through incentive compensation. Goldman Sachs, one of the largest and most successful financial institutions, seems to be under particular pressure for its compensation policy and its business model of generating profit for the bank through proprietary trading, in part because of the government aid it borrowed and has since repaid.

Our View

Many factors are in play right now as the markets try to find their footing. China's attempt to control its growth, continued weakness in European economic growth and high unemployment in both Europe and the U.S. have combined to provide a strong incentive to take profits after the equity market rebound. We believe a healthy skepticism of the continued growth in capital markets is warranted and the tempering of optimistic investor sentiment is appropriated.

From a regulation perspective, we expect some level of restrictions to be placed on proprietary trading as a result of the government's policies. The fact that former Federal Reserve Chairman Paul Volcker has weighed in on this issue makes it more likely that regulation will be implemented in some form, as he is respected by both Democrats and Republicans. Rather than having a wholesale negative impact on the financial services industry, we anticipate more of an impact

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on specific financial institutions. For companies that have little profit generated from such activities, the impact will likely be small. For others that see this activity as more of a core business, the impact will be larger. This may also force some of the larger financial institutions who quickly registered as commercial banks at the height of the crisis (such as Goldman Sachs and Morgan Stanley) in order to gain access to the Federal Reserve's discount window to rethink their organizational structures.

Our Investments

We remain fully invested in the equity markets and believe that the risk-led rally in 2009 will transition to a more fundamentals-driven market where companies will be judged individually based on their position in the market and their growth prospects. Over the course of the past quarter we have allocated more to investment managers who, in our opinion, have strong security selection capabilities. We believe they are in a better position than other managers to navigate such an environment. From a fund-specific standpoint, our U.S.

positions in the financial sector were generally in line with their respective benchmarks as of December 31, 2009. Within the commercial banking sub-sector, we held a relatively small allocation and an underweight position. Our Funds' sector positioning and selected securities result from bottom-up stock selection decisions made by the underlying investment managers.

Looking Ahead

We do not believe these concerns or concerns over regulation will be sufficient to de-rail the economic recovery or the market recovery, but they do serve as a reminder of the risks inherent in the current market. These issues can manifest themselves not only in the equity markets but also in the currency markets, as investors fearful of more regulation may use this as an excuse to sell the dollar and buy gold—a commodity that we still believe is overpriced.

By: SEI Investment Management Unit

SEI - The Super Bowl Indicator

Who do you want to win the Super Bowl?
The answer is the Pittsburgh Steelers, and I say that as a diehard Eagles fan.
What's that? They didn't even make the playoffs?

That's too bad, and here's why: every time the Steelers have won the Super Bowl (six times including last year), the stock market (S&P 500) produced double-digit returns, the lowest being 15.8 percent and the highest at 37.2 percent after the Steelers' 1975 victory.

A brief review of football history: in 1970, the NFL merged with the AFL. Under the NFL name, two separate divisions were formed — the original NFL teams became the NFC and the AFL teams became the AFC. The only exceptions to this were the Steelers, Colts, and Browns, three original NFL teams that went to the AFC.

Which brings us to the Super Bowl Indicator. It works like this — a championship for an AFC team predicts a decline in the stock market for the coming year, while a win for the NFC means the stock market will go up. Over the years, the Indicator has been relatively accurate for the original NFL/AFL teams. After the 29 NFL/NFC wins, the S&P 500 has gone up by an average of 16.49 percent. On the other hand, after the 12 AFL/AFC wins, the S&P has gone down an average 0.67 percent.

These numbers don't take into account expansion teams created since the merger. If you break it down by the current NFC and AFC conferences, the numbers are a bit different, but the NFC still portends better market returns. Their 22 Super Bowl victories were followed by an S&P 500 average increase of 15 percent. The AFC's 21 Super Bowl wins preceded an annual S&P 500 average increase of 7.33 percent.

The good news is, both Super Bowl contenders — the Saints and the Colts — are from the original NFL. So football fans, sit back and relax and watch the precision passing of Peyton Manning and the spread HD offense on the Crescent City Saints

. While connections between Super Bowl winners and stock market performance are probably just coincidence, you have to admit that the results have been surprisingly consistent. Savvy investors may want to put their loyalties aside and root for a team from the original NFL or the current NFC!

Sources: Standard & Poor's and NFL.com

Sources: Standard & Poor's and NFL.com
by Dean Mioli Senior Investment Analyst, SEI
Information provided by SEI Advisor Network, a strategic business unit of SEI

In Closing.....

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Do You Know Someone That Needs Our Help?

Cedrus is currently looking for new clients and needs your help. Our best fit prospective client is a family with net worth between \$3 million and \$100 million who is in some type of transition like you may have been when you met us. We believe we can help your friends and family, they need your and Cedrus' help. So please share, if you have appreciated Cedrus and our services.

As you have experienced, we show really well vs. the competition during times of crisis and uncertainty. We have made a company decision to endeavor to grow our business in the next 12 months so we can reinvest back in our client experience. All we ask is that, especially over the holidays, you share your results and experience from Cedrus with your friends and

family. Ask them how they did the past 18 months. Like any good friend or family member, share the good news with them if they are frustrated with their advisor or investment results. For a short time, we will consider new clients with family investable assets of \$250k or higher. We will offer them a complimentary Discovery and follow-up Assessment to see if we can help them.

The biggest compliment that a client can give us is the referral of family and friends.

Thank you for your confidence in our ability to serve you.

Team Cedrus
John, Brandon & Laurie

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