

| MARKET RETURNS | | | | | |
|--------------------|-----------|------------------------------|------------------------|-----------|------------------------------|
| | September | Year-to-Date thru 9/30/11 | | September | Year-to-Date thru 9/30/11 |
| Dow Jones | -6.0% | -5.7% | MSCI EAFE | -9.9% | -17.2% |
| S&P 500 | -7.2% | -10.0% | MSCI Emerg Mkts | -14.8% | -23.5% |

September This month capped three consecutive declines for equity markets, with each posting progressively larger losses. The S&P 500 lost 2.1% in July, 5.7% in August, and 7.2% in September. Investors have fixated on Eurozone problems, a deceleration in Chinese economic growth, anemic US job creation, Washington's lack of help for the struggling economy, a possible double dip recession, and the prospect that all this will lead to a global economic slowdown. It may be that investors are missing the potential clout of the Federal Reserve's big stick. Operation Twist is the plan to sell a portion of their short maturity bonds and invest the proceeds in longer maturities, thus managing the yield curve by lowering long-term rates to stimulate economic growth.

What Do You Do To Manage Risk? Recently, and not surprisingly, a few clients have asked this question. The answer is that our whole process is designed to reduce risk.

First, for each client, we identify an asset allocation of cash, fixed income and equity investments. Success in matching the allocation to the client's risk tolerance is measured by that client's ability to stomach the market's volatility, which has been extreme in recent years. Having determined a risk-based investment allocation, we hope to manage the #1 risk investors face, which is reacting emotionally to market swings. The vast majority of investors don't get "burned" by the market, but rather burn themselves by reacting drastically to the market volatility by not sticking to investment fundamentals.

Next, based on the clients' risk tolerance, we invest their money in an asset allocation model primarily derived from the Global Investment Committee. This committee is made up of senior professionals from Citi Investment Research & Analysis, Morgan Stanley and Smith Barney. Their Chief Investment Strategist is David M. Darst, author of *The Art of Asset Allocation*. Their model includes up to 6 fixed income market segments, 10 in equities, and 3 alternative asset classes. We adopt this multi-sector approach to reduce risk by achieving broad diversification. The committee meets monthly and issues a comprehensive report, although changes to the model typically occur a few times annually.

We utilize mutual funds as our primary investment vehicle to get access to world class asset managers and their staff of analysts and traders. In addition, with a fund in each of the abovementioned sectors, we achieve diversification within each sector not available to the investor purchasing individual stocks and bonds. The investment performance of each fund is monitored daily, and also receives comprehensive periodic reviews. When an issue with an investment is identified, we seek to determine the cause, and take action if necessary.

Such an instance occurred recently with Templeton Global Bond Fund; a position held in most of our accounts. The manager, Michael Hasenstab recently addressed our concerns when he reported, **"Operation Twist'... (has) resulted in a period of weak short-term performance for our global bond and total return strategies. As a reminder, we take a long-term investment view based on the fundamental research of individual countries and economies... In terms of the recent volatility, we feel that much of the selling pressure has been driven by short-term, speculative and leveraged investors. While these events tend to create periods of elevated short-term volatility, they can also reverse quickly when the selling is not consistent with economic fundamentals...Overall, these short periods of market volatility typically allow us to build positions at what we regard as attractive levels. Though difficult, we think it is important to look past short-term volatility and focus on the underlying fundamentals and medium-term investment horizon..."**

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It is worth noting Michael Hasenstab has managed the fund for almost 11 years and ranks in the first percentile, meaning he outperformed 99% of his peers, for 3, 5, and 10 years returns in this category, which includes 117 to 241 funds, depending on the time period.

In addition to our Trust Officers, we have an operations and administrative assistant staff to make sure client accounts are serviced promptly and efficiently. We also have a dedicated Investment Manger who works with the Trust Officers to manage accounts, monitor investment vehicles and identify new investment opportunities. His mission is also to rebalance when necessary to maintain both the allocation among cash, fixed income and equity investments as well as alignment with our asset allocation model.

Client accounts are reviewed regularly for compliance with their objectives and our model. If an account is out of alignment, it is adjusted accordingly, but capital gains tax considerations are always considered.

So why, with all we do to manage risk, do accounts sometimes lose money? Risk cannot be eliminated. The core objective of asset allocation is to increase the overall return from a portfolio for a given degree of risk, or conversely, to reduce overall risk to acheive a targeted level of return.

Experience, The Final Risk Management Strategy *The Wall Street Journal* reported on a study looking at the optimal age for handling money-related decisions. The author reported, “**Age brings us the ability to contextualize, the ability to find the right analogy, to see what worked in the past and what didn't. People with decades of experience in the financial markets are in the best position to get it right...Based on the evidence found in the research, anyone between 43 and 63 'is really in their cognitive sweet spot,'**” according to David Laibson, the Harvard University professor who, at 45, was the oldest of the study's four authors.