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Commerce Concepts

Market Updates, Asset Allocation and Investment Education for Plan Participants and Individuals

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Ten Tips to Stay Sane in a Crazy Market

Keeping your cool can be hard to do when the market goes on a rollercoaster ride. It's useful to have strategies in place that prepare you both financially and psychologically to handle market volatility. Here are 10 ways to help keep yourself from making hasty decisions that could have a long-term impact on your ability to achieve your financial goals.

1. **Have a game plan:** Having predetermined guidelines that recognize the potential for turbulent times can help prevent emotion from dictating your decisions.
2. **Know what you own and why you own it:** When the market goes off the tracks, knowing why you originally made a specific investment can help you evaluate whether your reasons still hold, regardless of what the overall market is doing.
3. **Remember that everything's relative:** Most of the variance in the returns of different portfolios can generally be attributed to their asset allocations. If you've got a well-diversified portfolio that includes multiple asset classes, it could be useful to compare its overall performance to relevant benchmarks.
4. **Tell yourself that this too shall pass:** The financial markets are historically cyclical. Even if you wish you had sold at what turned out to be a market peak, or regret having sat out a buying opportunity, you may well get another chance at some point.
5. **Be willing to learn from your mistakes:** Anyone can look good during bull markets; smart investors are produced by the inevitable rough patches. Even the best aren't right all the time.
6. **Consider playing defense:** During volatile periods in the stock market, many investors reexamine their allocation to such defensive sectors as consumer staples or utilities. Dividends also can help cushion the impact of price swings.
7. **Stay on course by continuing to save:** Even if the value of your holdings fluctuates, regularly adding to an account designed for a long-term goal may cushion the emotional impact of market swings.
8. **Use cash to help manage your mindset:** Cash can be the financial equivalent of taking deep breaths to relax. It can enhance your ability to make thoughtful decisions instead of impulsive ones.
9. **Remember your road map:** Solid asset allocation is the basis of sound investing. One of the reasons a diversified portfolio is so important is that strong performance of some investments may help offset poor performance by others.
10. **Look in the rear-view mirror:** If you're investing long-term, sometimes it helps to take a look back and see how far you've come. If your portfolio is down this year, it can be easy to forget any progress you may already have made over the years.

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Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends.

Source:
Raymond James Financial Services

Market Update

Through December 31, 2009

		Trailing Returns			
		3 mos.	12 mos.	5 yrs.	10 yrs.
Blue Chip U.S. Stocks	Dow Jones Industrial Average	8.095%	22.67%	1.94%	1.31%
Large-Company U.S. Stocks	S&P 500	6.039%	26.46%	0.42%	-0.95%
Non-U.S. Stocks	MSCI EAFE US$ (Gross Div)	2.221%	32.46%	4.02%	1.58%
Small-Company U.S. Stocks	Russell 2000	3.876%	27.18%	0.51%	3.51%
U.S. Bonds	Barclay's Captial (Lehman) US Aggregate	0.203%	5.93%	4.97%	6.33%
Cash	Citi 3 Month US Treasury Bill	0.033%	0.17%	2.88%	2.84%

Economic Outlook

Gross Domestic Product: 1Q10 estimate between 2.5% to 3.5% GDP growth.

Housing/Construction: After a substantial correction, housing has begun to improve. However, delinquencies and foreclosures are likely to remain elevated for some time.

Consumers: The savings rate appears to be stabilizing. Bank credit remains tight. Gasoline prices have been relatively steady. Spending is likely to improve gradually over time.

Employment: The pace of job losses has decreased significantly, but new hiring doesn't appear to have increased by much.

Manufacturing: The inventory correction appears to have largely run its course. Exports are improving. New orders and production have been trending moderately higher.

Prices: Core inflation has been low, held down by smaller increases in homeowners' equivalent rent.

Stunning Year Punctuates Volatile Decade

- The good news overshadowed the bad as the financial markets closed out 2009. Final numbers showed notable gains over comparable numbers in 2008, yet long-term investors couldn't miss the disturbing fact that there was no net progress during the past decade. None of the indices came close to matching their numbers posted at the end of 1999.
- Most analysts are looking for last year's progress to continue into 2010, as figures indicate some thawing in the frozen job market and housing prices showed a slight rise. Even year-end consumer confidence numbers edged up more than economists had been expecting.
- The Dow Jones Industrial Average registered an excellent final quarter, finishing at 10,428.05, up 7.4% from its third-quarter close and 18.8% above its closing 2008 numbers. The NASDAQ Composite rose to 2,269.15, for a gain of 6.9% for the quarter and 43.9% for the year. The S&P 500 rose to 1,115.85, up 5.5% for the quarter and 23.5% for the year.
- During the year, investors watched the U.S. dollar, still a global bellwether currency, sink nearly 3% when measured against the Euro. Crude oil prices, once hovering in the $50 range, edged up to $80 a barrel as 2009 ended. Financial markets everywhere, while less volatile than they were a year ago, remain sensitive to good or bad news, rising on favorable employment or housing price indicators, and quickly plunging when uncertainty arises.
- Investors apparently accept the general views of economists who expect only modest growth over the next year. Consumers drive 70% of the U.S. economy, and under current circumstances, it's difficult to get them in a spending mode. Greater growth is expected from emerging markets such as China and India, with their growing middle classes.

Investing involves risk, and investors may incur a profit or a loss. Past performance is not an indication of future results. Investors cannot invest directly in an index. Investing in commodities and precious metals is generally considered speculative because of the significant potential for investment loss. They are volatile investments and there may be sharp price fluctuations even during periods when prices overall are rising. When appropriate, they should only form a small part of a diversified portfolio.

To be entered into
a drawing to win a
$25 Gift Card,
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with the answer to
this question:

True or False? The income limit is removed for IRA contributions in 2010.

Making the Most of Tax Season

Here are some important updates that will help you wrap up your 2009 taxes and plan ahead for the coming year.

- The Required Minimimum Distribution (RMD) requirement was waived for 2009. Those who chose to take the RMD in 2009 will need to include the distribution as taxable income. The RMD requirement goes back into effect for 2010.

  Those who received unemployment income in 2009 can exclude up to $2,400 from taxable income.

- The energy credit is back. In 2008 the credit for purchasing energy-efficient items was generally not allowed. However, those who purchased qualifying energy-efficient items in 2009 such as insulation, windows or doors may qualify for credit up to $1,500.
- President Obama signed into law a bill which extends the first-time homebuyer credit for purchases made through April 30, 2010. The credit is for a maximum of $8,000, and the new law adds several restrictions to qualify for it. There is also a provision which allows taxpayers who have lived in their home for 5 years to purchase another home and receive a $6,500 credit.
- There is a new credit referred to as the "Making Work Pay" credit. Those who have adjusted gross income of less than $75,000 for single filers ($150,000 for married filing joint) may be able to claim a credit of up to $400 ($800 for married filing joint). If your income exceeds these amounts, the credit phases out.
- If you have dependents in college, the Hope credit (or the American Opportunity credit) has changed. The credit for year 2009 is 100% of the first $2,000 and 25% of the next $2,000 spent on qualified tuition and expenses. There is also a phase out if incomes exceed $80,000 for single payers and $160,000 for married filing joint payers. This credit was also extended from costs incurred only in the first two years of college to costs incurred in the first four years of college.
- The auto mileage deduction for 2009 is 55 cents per mile for business travel, 24 cents per mile for medical travel and qualified moving expenses, and 14 cents per mile for charitable travel. You should maintain a log or record of the number of miles for each category. Make sure you know the total number of miles driven by each vehicle used during the year.
- Long-term capital gain rates are still 15% for most taxpayers. In years 2009 and 2010, there is a special rate of 0% if your ordinary income is taxed at the 10 or 15% tax rates. Certain taxpayers may be able to take advantage of these low rates depending on their income; this can be a useful planning tool for those who anticipate a reduction in income.
- Some investors have wanted to convert their IRAs into Roth IRAs, but have been unable due to income limitations. In 2010, the income limit is removed for conversions (but not for regular contributions). The conversion will still be taxable, but not subject to penalties. In addition, account holders will have the choice to either include all of the income in year 2010 or to include half of the income in year 2011 and the other half in 2012.

The option to spread federal income taxes over two years applies to 2010 only. For conversions occurring after 2010, the federal income taxes must be paid in full the following tax year going forward. Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its own fiveyear holding period. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.

The Commerce Company is celebrating 15 years of business in the Pacific Northwest!

We thank you for your partnership and trust, and look forward to working with you in the coming years.

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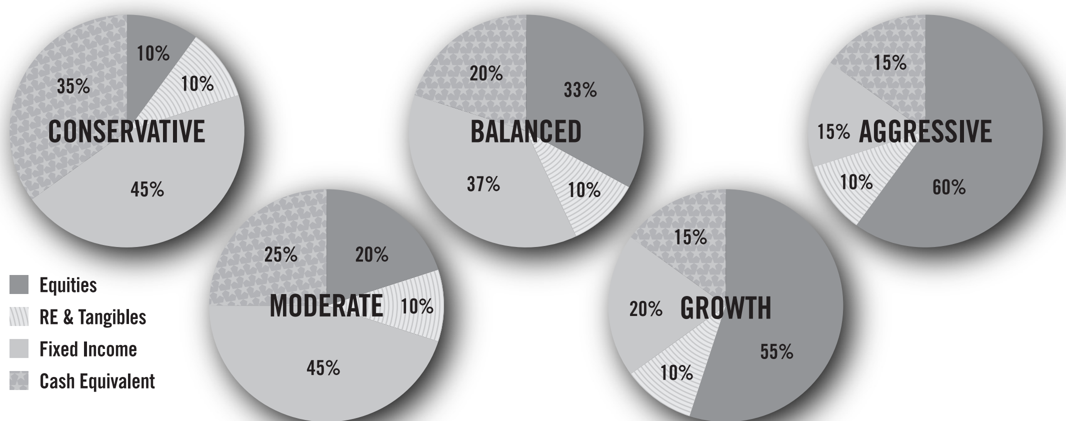

Asset Allocation Our suggested allocations reflect:

Up-to-date asset allocations can be viewed online anytime at **www.thecommco.com.**

- We are leaving our allocations unchanged to reflect our continued cautious outlook.
- We feel that investment themes this year will trend towards "total return stocks," those that pay dividends. Historically, this means that value will outperform growth, so we recommend overweighting portfolios in value. International investing, particularly emerging markets also seem poised to continue their strength of 2009 through 2010.
- Our concerns remain long-term inflationary risk and the risk of rising short-term interest rates. Neither of these seem likely for the first half of 2010 as pricing of consumer products should stay relatively weak and employment related wage inflation should be modest overall for much of this year.