

FINANCIAL FOCUS

[EDITOR'S NOTE]: OVER THE LAST NINE MONTHS, investors have read their morning papers, stared at CNBC, and ripped open their brokerage statements with similar results. The financial calculus known simply and profoundly as their net worth has done something of a disappearing act. The S&P 500's early March lows of 666 represented a 57 percent drop from the all-time high reached in October 2007.

TAKING STOCK

It has meant a time of quickened pulses for some, panic for some others, and, for nearly everyone, a time to consider whether they're on the right financial path for the future.

So in the context of this era – widely termed “the worst economic crisis

since the Great Depression” – we're devoting 16 pages of this issue to the current thinking of Pittsburgh's leading money managers. Our methodology was simple and unscientific. I interviewed each of the 17 experts for at least 30 minutes, covering a variety of topics. Believing our readers would benefit most from reading their insights in their own words, I have simply edited down these conversations slightly with an eye toward keeping the most germane thoughts intact. Two caveats: For space considerations and because everyone

mentioned it, I have largely edited out discussions of developing a financial plan. Virtually every expert interviewed, however, stressed the importance of meeting with new clients to learn their current situation, goals, objectives and risk tolerance, among other factors. After these conversations, each advisor develops a plan, which the new client reviews. You will also not find much mention of fees, which vary a great deal but are most often charged as a percentage of assets under management, typically declining as a percentage as assets rise.

Our goal is to provide you with the best current thinking on what you should be doing. Now, on to the experts, in alphabetical order...



Seventeen local
financial experts
offer the voice
of experience
as investors
everywhere peer
into an uncertain
economic future

Interviews conducted
by **DOUGLAS HEUCK**

Allegheny Financial Group



Jack Kraus is chief investment officer of Allegheny Financial Group, which has 10,000 clients, \$2.5 billion under management and no set minimum.

WE DO MORE THAN JUST MANAGE their money. We understand their investment in the big context of their financial picture. If one word describes our approach, it would be conservative.

We're telling people their long-term goals have not changed. Stay focused on the long term. The short term is not knowable. Our message has been consistent, but it's very difficult for clients to keep their focus in an environment where there's so much hype and hysteria going on from the government to the media.

Yes, this is a horrendous period. We haven't seen the likes of it since the '30s. But the world's not going to end, and we try to get people to take it back to their life. Has your life changed dramatically? Maybe some have gotten laid off. But for the majority, their lives haven't changed dramatically. While business is off for most companies, most will not fail. Some will. It happens in every recession. This one is just more severe. The ride down has been deeper and longer, and it will take longer to recover.

The biggest fear is that there are always those clients who do things at the wrong time. If you were fortunate enough to see this coming and got out of the market, kudos to you. But if you didn't, this would not be the time to get out. You don't want to take an elevator down and the steps back up.

For people who are not at their target allocation of, say, 60 percent stocks, we want to work back towards that. Typically, we're dollar cost averaging back in for the remainder of '09. We might miss some on the way up, but our clients would rather have some opportunity cost than jump back in and find there's no water in the pool. We try to remove that element of timing out of our process.

Asset allocation depends less on age than most people think. The rule of thumb is you take 100 minus your age, and that's how much you should have in equities. Well, if you have enough money and aren't dependent on your portfolio for your standard of living, then you can have more in equities for future generations. Circumstances and past experiences—all those things weigh in.

We also serve as the emotional barrier between clients and their

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money. When they want to get greedy when times are good, we're holding them back from that and vice versa when they're fearful when times are bad. What we witnessed was that every time the market hit a new low, a group of clients was getting tested—not only ours. Every time that happens, a certain percent say, “I just can't take it any more.”

We're big believers in broad diversification, covering all segments of the markets. On the equities side, between domestic and foreign, big and small, and value and growth approaches. With fixed income, it's the same idea between domestic and foreign, high-grade and low-grade, and government—corporate or muni. And real estate and commodities. We think the best way to achieve that diversification is through good mutual funds.

Typically, our history is that, in tough periods, we get a fair amount of new business. While we're getting some now, it's not to the normal degree. Not a lot of money is moving around right now. That will pick up as the year goes on. But right now a lot of people are just hunkered down waiting it out. In the longer term, the next 10 years, yes, this is a historic opportunity. ●

Henry H. Armstrong Associates



James Armstrong is president and chief investment officer of Henry H. Armstrong Associates, which has 130 clients, \$340 million under management and a \$2 million minimum.

WE DON'T SELL INSURANCE OR ANNUITIES, and we don't use mutual funds. We build every portfolio from scratch. We're sharply differentiated from the vast majority of money managers. We concentrate our portfolio in the 12–20 stocks we believe to be among the strongest businesses in the world. Most money managers own 100 stocks, 200 stocks, and feel a need to have some exposure to each industry. We deliberately avoid weak segments of the global economy. And this approach has allowed us to outperform the S&P 500 by 75 percent over the last 20 years.

We entered the 2007–2008 period with zero exposure to the stocks of banks, brokerages, mortgage companies, automakers and home builders. Many of those stocks went to zero or close to it. We sold our Freddie Mac seven years ago because we saw trouble coming. We've always been very leery of the debt of highly

leveraged companies and really got tough on that in 2003–2005. We got rid of AIG and any banks. We were not going to expose our clients' capital to companies with a lot of debt and companies where we frankly thought they were cooking the books.

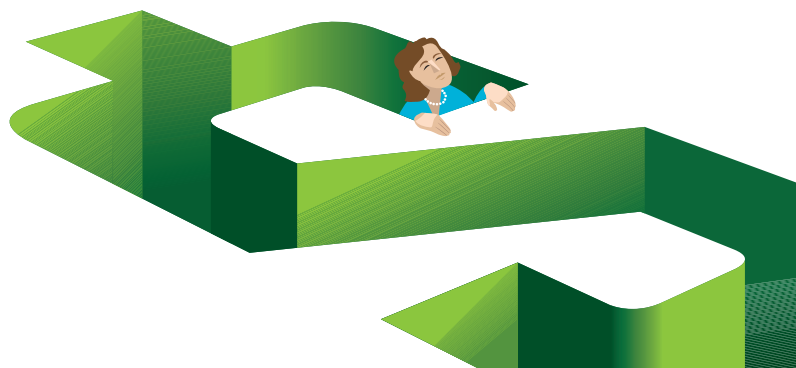
Those stocks were very widely held by the vast majority of mutual funds and money managers. Financial companies at their peak were almost one third of the S&P 500, so to turn our backs on them and have zero exposure took a certain amount of conviction, which I don't think is very common.

We focus company by company, stock by stock. We visit the companies. We talk to their management and their competitors and customers. We really work hard to flush out any weaknesses in the investment thesis for each stock. So that's obviously very different from an advisor who chooses nine different mutual funds, none of which are managed by the advisor. And the advisor doesn't go talk to the management of the company in those funds. They don't see that as part of their job, and we see that as the central element of our job.

Our companies have little or zero debt. None of them relies on the credit markets or the banking system to borrow cash. So I'm very excited about our portfolio's quality and its potential for capital gains going forward. A lot of their competitors are weak and losing market share to our companies. The irony is that the stock market took the stock prices down for virtually all stocks. So for the first time in my career, the strongest companies in the world are not selling at a premium compared to the mediocre, average companies. That's an unusual advantage. But in the last six months, these forced sellers—hedge funds and mutual funds—were just throwing the baby out with the bathwater. And that gives us a chance to invest at very attractive prices.

One reason we've been able to pull this off is that we're not part of a large financial institution. We're not subject to Wall Street sales pressure and derivatives exposure. I can do my job much better as an independent, private firm, compared with my ability to do the same job at a large financial institution, where every portfolio decision is made by a big committee. Political elements creep in there. The big firm wants better quarterly earnings, so they push their people to sell annuities or hedge funds, which have higher fees. You wouldn't believe how dominant those forces are in these big institutions.

Our clients feel very reassured by the strength of the companies they own. It's just a great time to invest in our style of investing. We're voting with our feet, putting our own cash into our favorite stocks in the last couple of months. ●



BNY Mellon Wealth Management



Don Heberle is executive director of BNY Mellon Wealth Management, which has \$132 billion under management and a \$1 million minimum.

THERE NEEDS TO BE a mutual understanding of our clients' goals and objectives. The objectives and risk tolerance drive how we would structure an investment portfolio.

We largely use products that are contained in the BNY Mellon organization. We think that's important, especially in the current environment. We know the manager, the process, the strategy, and we can get information on a real-time basis. And our clients take a lot of comfort that we have that level of communication and transparency. This includes stocks, bonds, alternative investments, domestic, international taxable bonds, municipal bonds—the whole gamut. Not every client will have all those assets.

Right now, people are being very thoughtful, which they always should be about who they use as an advisor and the questions they ask of their advisor.

We are able to deliver in a very local and personal way. We sit across the table and talk. But it's backed by a very large institution with a lot of breadth and depth in investment opportunities. We manage globally \$1 trillion. It's a very deep, strong investment organization. When we take over a client's assets, those assets are always the client's. If anything would happen to the bank, those assets would go back to the client. In other business models, if something happens to the firm, there goes the money.

We've seen a lot of new clients who had relationships with companies that may have been in the headlines. People want to be comfortable that they're with a firm that is safe, and we've been a beneficiary of that. People feel comfortable that we're going to be a survivor of this crisis.

If you had a plan in place that you believed in and that made sense, there are always opportunities to modify or tweak it, but we're not recommending wholesale changes. We preach diversification, diligence and discipline. That doesn't mean you don't opportunistically take advantage of moves in the market, including adding to equities at a much more attractive level.

Do your homework when selecting an advisor. Understand

the process. Get to know the people. Make sure it's someone you're comfortable with and that they're asking you the right questions about your goals and objectives. Be comfortable that the firm's going to be around.

In Bernard Madoff's situation, he had a great reputation, but nobody knew what was behind it. He was very secretive about the process. In our company, there's a lot of transparency. With Madoff, people were so enamored with the results that they didn't think to ask the questions. Or when they didn't get the answers, they were so happy with the results that they just kept going any way. When it looks too good to be true, it usually is.

It's a red flag when a firm doesn't have the checks and balances. You want different parts of the firm handling different aspects. You want more eyes watching over what's going on. You should ask how they do things, who does what, and how different functions are handled.

Certain firms make their money by selling the product. We don't use that business model. If they're not getting a straight answer or are getting an answer they can't understand, that's a red flag. We don't make money on trading assets and buying or selling. Our job is to get clients the best price. Our interests are aligned with our clients' interests. ●

BPU Investment Management



Nadav Baum is managing director of Investments for the Nadav Baum group at BPU Investment Management, which manages money for 150 households. The minimum account size is \$500,000.

WHAT'S GOING ON TODAY is about a plan. You have to have a plan. In times of volatility and bear markets, when it seems that the world's coming to an end, those who stick with their plan get through a lot easier. Remember, this is a short period of time in between a long-term planning strategy. We tend to forget that while we're watching account values drop, drop, drop.

We implement and monitor the plan. A lot of advisors miss the boat there. They're shellshocked, just like their clients, and they're afraid to call their clients. Quite to the contrary, this is when your clients need you. This is when you earn your money. During times like this, I'm calling and having seminars.

It's always easy when things are going up. The problem is

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that there are two pieces driving your decision making—fear and greed. The investment strategies are the opposite. You're supposed to buy low and sell high. But when the fear factor kicks in, you sell low when it's a time to rebalance and maybe buy more. Fear and greed are powerful and make you make mistakes on both sides—buying when you should be selling and selling when you should be buying. That's why you hire advisors.

The hardest part for me is, even though clients have a plan, it's very hard to watch 14, 15, 16 months in a row where your statement is dropping in value. There's a quality of life side to investing. If it's keeping you up at night with heartburn and heart attacks, you need to look at that. It's health and then wealth, not the other way around. There are clients who thought they could handle the volatility. I don't think there are many who thought it would fall so fast. Some don't realize how much pain would be involved and how much money they could lose on paper so quickly.

The retired clients feel they don't have any earning power. They get more panicky and say, "Oh my God, get me out." The problem is, they'll never get back in, or they'll go back in when the market is at 13,000 again—"Oh my God, I'm missing the boat." It's that greed.

Again, whether it's stocks, fixed income, bonds, cash or alternatives, it's about having a plan and rebalancing the plan. History and academic studies show us that those clients tend to lose less and get good risk-adjusted rates of return over time.

I look at precedent and what's happened in the past. I don't call bottoms and tops. I say, "Wait a minute, if we're a stock market investor, why aren't we buying these great companies that are down 50–60 percent? It's the same with mutual funds.

The U.S. stock market is still the best growth program in the world, even though the last 18 months, and even the last decade, have not shown the historical rates of return of 8–10 percent. They'll get back there. Right now, the valuations are so attractive that if you have a 3-, 5-, 7-year time frame, you should be buying these great companies. Not everybody's going out of business. I think this is a blip within a long-term growth mode for the U.S. stock market. ●

Federated Investors



Linda Duessel is senior portfolio manager and equity markets strategist at Federated Investors, which has numerous mutual funds and \$407.3 billion under management.

THE MARKET IS A REFLECTION of the profit outlook for the companies in our country. And the profit picture has been badly hurt by a severe recession, which gave us a very brutal bear market. But the market is a forecasting mechanism, so it can do well even when things are bad, if the market can see light at the end of the tunnel.

If you are truly a long-term investor, you'll look at this time to peel into the markets. You shouldn't put all your money down. I don't know that we've seen the bottom yet. I think we have, but the market is just human beings buying and selling.

Ask yourself a question: Do I think that our global economies are in as difficult a situation as they've been in our lifetime? Yes. Did they cut the market in half? Yes. Do I believe that the many efforts made by governments and central banks around the globe won't work at all? We think that these government efforts will work and bring us a recovery in the fourth quarter. If I believe that the USA is far bigger, more diversified and stronger than it was at the time of the Great Depression, then these valuations are worthy of my peeling in and investing over time in the market.

We're not out of the woods at all. If the massive, unprecedented stimulus works and we get a recovery at the end of this year, then unemployment drops. And hopefully, we'll see improvement in profits. If the market trades up to S&P 1,000, that was a 50 percent bull run. Then we have to say, "Now what?" Will the credit markets still be shut? If not, will we have pent-up demand that could get us going on a good recovery and a secular, long term bull market?

We're going to have to pay for all this money we're spending that we don't have. Taxes historically will go up, which historically brings on recession. In my time alive, Washington, D.C., has never been so important to the markets and the economy. If our government raises taxes in the face of a nascent recovery, they could do damage, as was done back in the Great Depression. There was a bull run, and then came protectionist measures, the Smoot-Hawley Tariff Act. The highest marginal tax rates went from 25 to 90 percent during the '30s. Those two things are what made the Depression Great. There's a decent chance that won't happen, with Fed Chairman Ben Bernanke being a great student of the Depression.

Our budget deficit of \$455 billion last year was the largest in history. This year, it's \$2 trillion. The deficit is rising to 13 percent of our economy. The only worse time was during World War II, but we quickly sprang back. How are we going to spring back? But, as Scarlett said in "Gone with the Wind," "I shall worry about that another day."

Even when the market was strong and reaching new highs, the investing population has not felt the confidence of what a great country we live in, and I really think it's a great country. And it's a huge, diverse country. But the last thing I read, 80 percent of Americans think we're heading toward a depression. Is it because there's so much media? Everyone likes a train wreck.

People say buy and hold is dead. No, buy and hold isn't dead. We're eking out a bottoming process in a secular bear market.

It's painful, and it takes years. We could be looking at a sideways market for years to come (not that you can't make money in it). It's akin to watching a forest fire go up in flames. You want to cry. But it's natural. You'll see new saplings and ultimately a better investing environment for you, if you have time, and for your children. Buy and hold is not dead, but for now, he's in a coma. ●

Bill Few Associates



Mike Kauffelt is president & chief investment officer of Bill Few Associates, which has 2,000 clients, 700 million under management and no minimum.

WE HAVE A DEDICATED INVESTMENT UNIT with five professionals who don't have any client relationship work. They select the best mutual funds out there, primarily no load. They also do individual stock and bond portfolios. These five are scanning all the investments, making recommendations for the professionals who work for the clients. We've edited the 10,000 mutual funds down to the 100 or so that are appropriate for our clients. We truly tailor the investments to meet the clients' unique objectives.

Each member of the investment team has a specialty, and we talk about what's going on with the economy. As chief investment officer, I build those allocations and look at the market. Should we have more stocks, more bonds, more international or domestic?

We are getting a lot of phone calls now, mostly from people who don't feel they're getting much communication from their current advisor. In this pain we've all lived through, there've been two types of advisors. Those who've tried to communicate and empathize with their clients, and those who've put their heads in the sand like an ostrich. We have been working literally twice as hard as we did in 2007, in the number of phone calls and meetings.

If your goals and objectives for the next 10 years haven't significantly changed, then we don't want to tinker with the plan too much. We can make some adjustments, but we pretty much stay the course. If what we've lived through is the worst year in 70 years, hopefully that's a statistical aberration, and we'll get more on a normal course.

Ninety-eight percent of clients are individuals, and the big

difference between individuals and institutions is mortality. So if you have someone who's 85 or 87, they may not have 10 years for the markets to recover. We have to make sure they have adequate cash to meet their living needs. Then what's their next goal with principal? Is it safety or growth? If it's just for them, it's safety. If they're looking at their children and grandchildren, we can put the focus back on growth.

The greatest risk right now is to be too conservative. If you leave your money in a money market, CD or Treasury, all earning 1 percent, it's going to take you 100 years to double your money. Now is the time to start thinking about getting back into large cap, blue-chip-type of stocks or stock funds. They may go lower next year, but 10 years from now they should be fine. Corporate bonds are yielding 6 percent and, with a little luck, you might make 7, 8 or 9 percent and probably not take a huge amount of risk. As long as you fundamentally believe our economy is going to survive, this is the time to start switching to offense from defense.

There are a lot of good firms in our area. What differentiates us is we do try to approach it through financial planning. We try and be a quarterback for the clients. Even last year was a great time to talk to clients—is your insurance up to date? How's your tax planning? Most people were incurring a ton of losses; can we use that to lower your taxable income?

Our 11 advisors have been with us an average approaching 15 years. So not only has the firm been around, but there's a depth of experience, and that helps, especially in times like this. We've dealt with the cycles and the emotions they bring. ●

Fifth Third



Bernadette Smith is senior portfolio manager of Fifth Third Private Bank, which has 166 clients, \$620 million under management, and a minimum of \$1 million.

DESCRIBING RISK TOLERANCE is almost like describing love. If you've never experienced it, you don't know what it is. So in this traumatic decline in the markets, my first step is conversations with clients—not about markets but about the clients. How are you feeling? Are you losing sleep at night? Now that we've

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TAKING STOCK

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lived through a bear market, we really know what their risk tolerance is.

We remind them that this is really long term, if it is, in fact, long term. Let's say you were supposed to be 60 percent stock and 40 bonds, but the market's dropped so much that now you're 50–50. My job is to coach that client to get back to our asset allocation. What's the difference between 4 and 5 percent return on your money? The majority of people would say 1 percent. But it's not. It's a 25 percent difference on return. We bring that back into the discussion—that's why you invest in stocks in general.

With the tech wreck of 2000, everyone felt that the world was coming to an end. But it didn't. In 1987, I remember my emotional state. But it's never different, and it's not different this time. It's human nature to think that what's happened in the recent past is what will happen in the near future, and it just doesn't work like that.

We have open architecture. We have proprietary and non-proprietary separately managed accounts and access to dozens of mutual fund families and exchange traded funds. We have a separate department that screens for performance and risk-adjusted performance.

The investment world has become more complex, but it's also that our day-to-day lives have become more complex. I hear people say, "Oh I was going to buy that stock, but I just didn't get

around to it." And they lost the opportunity. Allow your advisor to implement strategies for that big picture. It's so easy, as a lay person, to make apples-to-oranges comparisons. Within the world of bonds, there are so many different types of bonds. And within that, there are different credit qualities. It's really asking a lot of a person to figure that out on their own.

Each client has a customized team, with a wealth management advisor, a private banker for lending and banking needs, a portfolio manager, and a trust officer. And if there are additional special needs, we bring in experts in the appropriate areas. We really want to provide a team of best-in-class experts who understand and know where you want to go.

We also have a women's network, which is a group of women officers in different lines of business in the bank. As women, we understand how women make decisions. We help them through the process, which can be pretty complex, in a woman-centric way.

Back in November, we decided to increase cash. Just last week, we switched to the neutral level for cash and money markets, with the idea of gradually rebuilding portfolios back to the appropriate asset allocation. We expect to see the volatility continue and the S&P 500 trading between 800–900 at least through the second quarter. There won't be earnings reports after first quarter until July, and that's a long time to wait to see how companies are performing. ●



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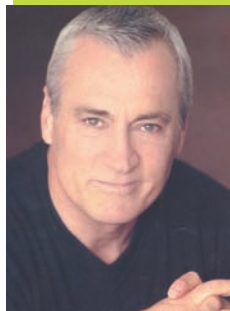


Kevin Miller
Managing Partner
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Northwestern Mutual®

First Commonwealth Financial Advisors



Richard Applegate is president of First Commonwealth Financial Advisors, which has 174 clients, \$147.3 million under management and a minimum of \$250,000.

THESE DAYS, CLIENTS ARE CALLING for a sanity check. They've gotten smacked in the market, and they're asking, "Am I on the right path?" I have to play financial psychologist. Money is a communication tool, and what a dollar means to one person is different for someone else. We invest the money so that it matches the goal and expectation. The most important thing is my ability to get a sense of the client's temperature in terms of risk.

For the high-end accounts, we're using an individual stock and bond management approach, which we may supplement with mutual funds. Fifteen years ago, I concluded that there were some really good, top quality money managers in this world. So I direct clients to the best institutional managers, and that rationale has been borne out with what's happened with Madoff. I can boil the 14,000 mutual fund groups out there down to 100, and we have great affinity and comfort level with these managers.

In this market environment, we're not so much concerned about the stock market as we are with individual companies. We're looking for companies that have a really strong story, and, whether it's stocks or bonds, very strong management, strong balance sheets, and little debt and reliance on the government.

It's a very difficult game now. All the rules for the last 10 years have been found to be manipulated or corrupted. Can you rely on the past 10 years of information? The SEC and FINRA (Financial Industry Regulatory Agency) really dropped the ball with the Madoff situation. The rating agencies dropped the ball on bonds. And the government was asleep at the switch in the way it allowed the expansion of unregulated business. The hedge funds were completely unregulated, with huge amounts of money pouring in. So there was a lot of collusion all the way down the line.

Right now, people are looking for one honest voice that they believe they can talk with. Someone who will speak with a straight tongue, without having a hand in their pocket. I hope, without being presumptuous, that that's a role I play.

For a while, it's going to be interesting to see the competi-

tion that's going to be created between the yields of bonds and the returns of stocks. Keep in mind the degree to which companies have cut their dividends. Reduce those dividends by half or more, and you're looking at returns of 6.5 to 7 percent instead of the historical 10. If I can go out and get a bond and believe that company's good for paying me for the next eight years, why am I stretching myself to get the return on stocks?

We're telling people they really need to continue to watch their debt ratio. People were so happy to leverage themselves over the last 10 years. One of the best investments is not incurring debt that's greater than what you can earn on the money itself. Maintain and control your spending. Save as much as you can. Continue to invest. There's a tremendous amount of opportunity in the market right now.

Finally, what people really should and deserve to do is get a financial check up. Go talk to your trusted accountant or tax attorney. Spill out the details. Get outside of your trees and look at your forest through someone else's eyes. That's really important for trying to get the next right direction. ●

F.N.B. Wealth Management



Jeff Wagner is chief investment officer for F.N.B. Wealth Management, which has 2,400 clients, \$2.5 billion under management and a required minimum of \$500,000.

WE BREAK OURSELVES INTO TWO GROUPS. Each client is assigned a team of a client service officer and a portfolio manager. The client service officer's job is to know the client and their goals and objectives. Matching their goals with their tolerance for risk is where the portfolio manager comes in. The worst thing we can do is set somebody off on a path they're not going to be comfortable with.

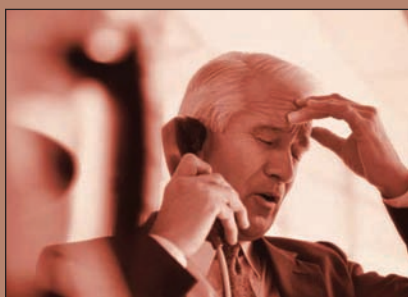
We custom-make portfolios for clients with a combination of individual bonds, bond mutual funds, individual stocks, stock mutual funds and exchange-traded funds. Our individual stock portfolio is an in-house product. We believe in a team concept of portfolio management. We get together as a group with our research group and come up with our conclusions.

Each portfolio we manage is benchmarked against a market

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index portfolio for that mix. We measure that monthly so we can let clients know if what we're doing is in line with what the world is doing.

At the start of this year, there was belief that, with the change of the year and administration in Washington, things would change quickly. At the beginning of this year, we saw that those expectations were too lofty; the market went down another 24 percent. Since then, markets have gone back up 20 percent or so. So we're getting a sense that the market and economy are showing some signs of stabilization. By and large, our clients are starting to feel at least a little better.

Our economy will recover, but it will be slow, and it won't be smooth. Throughout this experience, we've tried to have our clients not look at the stock market as this thing that's constantly going down, but instead focus on what they own. If you own companies like Coke and Pepsi and Procter & Gamble, that gives you some comfort. These companies have made money through this environment and will make money in the future. They're very attractively priced right now.

We know this has been a horrible time for everybody. Our main role is to meet with our clients and do reevaluations when necessary. When stocks are low, you're emotional and don't want to buy; when they're high, you don't want to sell. One of the best things we do is take the emotions out of it and do what the client won't do for themselves.

If your plan was proper to begin with, we have not felt the need to make bold and drastic moves in any of the portfolios. If you're retired, you probably didn't have a lot in the market. If you were close to retirement, you're probably fine. If you were 10 years away, those are the clients that may need some tweaking. If you think about this as a football game, this is half time for a lot of those clients. The good coaches make adjustments at half time. And if you're 15-plus years away, you have the ability to take advantage of what's happening.

Choosing an advisor is really a personal business. If the person across the

table from you is going to know the intimate aspect of your finances and life, it's really a matter of comfort. Most people will interview three or four firms. Pick somebody you feel comfortable with. ●

Fort Pitt Capital Group



Douglas Kreps is managing director of Fort Pitt Capital Group, which has 1,200 clients, \$730 million under management, and a minimum of \$500,000 in relationship value.

WE STARTED THE FIRM IN 1995 with the idea that most investment management firms emphasize one discipline. We felt it was important to be great financial planners, great money managers, and—what everyone overlooks—great operations people.

We're telling clients to remember their investment plan. If that plan was put together properly and made sense for them 18 months ago, it makes sense today. That doesn't mean we won't rebalance and take advantage of opportunities to tweak it, but the long-term client of our firm has a plan to withstand these storms. We're also reminding them that, just because it looks easy right now to get a CD at the bank, now is the wrong time change an overall sound strategy.

We are getting calls from prospective new clients. Looking back, the tech bubble of 2000–02 was like emergency room triage. People were coming in with badly broken portfolios. This time, we're not surgeons, we're psychologists. So now we're asking people, "Can you stomach the market risk, what are your income needs, and what can we do to help you sleep at night?"

We believe investors need a clear strategy that is rational, repeatable and delivered with very high ethical standards. If you can execute on all three elements, you're going to succeed over time. Also, we don't custody assets for clients. We have the discretion to direct trades on behalf of our clients, but we never touch the underlying assets. That's all done with a third party custodian, unlike a captive broker dealer, where there isn't that arms-length separation to protect the clients' assets. That separation was not present in the Bernie Madoff situation.

There's a lot of cynicism in the market with regard to recent scandals. Investors are very aware of needing to work with someone who's going to treat them as a fiduciary and ethically. That's

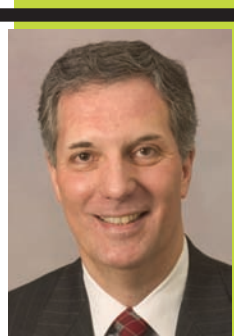
really the key right now. It's very easy for investors to find out if their money manager or advisor has had issues in the past. Go to www.sec.gov or www.finra.org. Do a little bit of background checking, and if there are any questions the advisor has difficulty answering, walk away.

We also manage a mutual fund—FPCGX—that is our vehicle for smaller accounts. We have mostly stocks in the fund, a 12 percent cash position and, over time, have owned treasury bonds, when the yield is attractive. We consider ourselves to be an all-cap value manager. The mutual fund is a public company, so we're subject to Sarbanes-Oxley accounting reform regulations. If our financials aren't correct, we will be liable. That's a pretty big responsibility. And we treat all our separate accounts the same as we treat our mutual fund.

We manage about two-thirds of our assets in individual securities—stocks and bonds. And for the other third, we use third-party managers in the form of no-load mutual funds. This allows our firm to develop an investment strategy that is tailored to the individual needs of our clients. Many of our clients are tax-aware—they may have some fairly low basis in their stocks, and we want to be very sensitive to taxes as we transition that portfolio.

We believe we're in the point of the cycle where, while we may not return to the fabulous '90s or might not see a great rebound as we did in '03–05, we think stocks are reasonably or slightly undervalued right now. ●

Fragasso Financial Advisors



Robert Fragasso is president of Fragasso Financial Advisors, which has 1,600 clients, \$600 million under management and a \$250,000 minimum.

THE ONLY RIGHT WAY for an individual to begin a financial management program is to start with a complete analysis. If it's retirement security, education of children, or taking a year off to write the Great American Novel, we take the goal and work backward. For example, maybe retirement means the place in South Carolina you've always wanted to buy. What kind of place do you want and what

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would it cost today? It's our job to take that cost and project it into the future using historical norms of inflation. Then we work backward. How much do you have saved? How is it deployed? How about cash flow? What are you spending and bringing in? Let's theoretically disable you. What are your shortfalls and vulnerabilities?

We reallocate your assets and cash flows in line with the very definitive plan we've fashioned together. This asset allocation reflects you, your time frame, risk tolerance, family obligations, assets and savings. That's not going to change because the ups and downs of the markets are built into those assumptions.

Very few people are equipped to do the planning process, asset allocation modeling, and securities screening on their own. It's a delusion to think you're going to pick up a financial magazine and be your own financial advisor. It's the hubris of the young or uninformed to think they can.

The advisor should not be on a commission basis for selling you a product. The story of toxic assets is the failure of a model that creates the product and sells it to the public under the guise of advice. The product provider should be separate from the advisors. If the advisor isn't separate, they should declare themselves knowledgeable product salesmen and be transparent about that.

Look into the advisor's background. What education and additional certifications do they have? The foremost is the Certified Financial Planner (CFP). Go online and look at their regulatory history. Anyone can be sued for any reason; that doesn't make them bad. But if they have multiple regulatory findings or disciplinary actions or suspensions, be cautious.

If the advisor's not willing to start with the diagnostic process and invest time in dialogue and analysis, be suspicious that a product sale is coming. If the advisor is coming with pre-made list of funds that their firm recommends, ask to see the list. What are the criteria? Have they evaluated the mutual fund's management? Do they have high turnover? Are they on a star system with one brainchild or is it a committee process that's replicable? They may have the best performance in the past three years, but that was one manager who made all those calls, and he

just opened up his own firm.

Scrutinize fees. Finally, it goes to that indefinable thing that I never believed in but now do: chemistry. If that person has done all the right things and you have a good feeling about that person, maybe this is somebody you want to go with. Sometimes people become immobilized during a downturn and feel that, just as soon as this works out, I'll get my house in order. No, this is the time to do it. Right now.

In terms of what's ahead, we disclaim any ability to be clairvoyant. But the two ingredients for recovery are stabilizing the financial system and flooding the economy with money. I'm looking for the recovery that always occurs when we do those two things. Watch the plans. If they take hold, then we are going to claw our way out of this. ●

Guyasuta Investment Advisors



Peter Mathieson is president of Guyasuta Investment Advisors, which has 190 clients, \$550 million under management and a \$1 million minimum.

WE'RE DEALING WITH WEALTHY PEOPLE by definition. Half are working. Half aren't. Once we understand their assets and family situation, we look at their estate plan and make sure they're doing everything right to protect from taxation. We make sure they've paid down any egregious debt they may have. Sometimes the process takes up to six months. Sometimes we can do it in two meetings. Bright people get it.

People don't hire us to make them wealthy. They hire us to protect their wealth and keep them wealthy. We don't expect the bonds to lose money. On the equity side, though, I traditionally say, "Let's assume that the day after you put the money to work, it goes down 40 percent." I look at their eyes and ask if they're going to lose sleep. I think I'm unique in having that conversation, but I've got to know how they feel about this.

What's new with this market is that we blew through what I, as a conservative person, thought might be the worst case. Stocks went down 50 percent, and there was no place to hide outside of treasuries. We've even been concerned about our money market funds and a year ago actually moved the client cash into money markets that only invest in treasuries. So we



went from earning about 1 percent in our cash to earning about 20 basis points. It was a hit. But we were willing to take that step to make sure it was safe.

We work with stocks and bonds. We try to buy good solid companies that grow, but buy them at the right valuations. We try to own 30 stocks, and we try to hold a lot of cash. Most of our stocks are recognizable names. We do fundamental research and significant valuation work. We dig through 10-K and annual reports. We talk to the management of the companies that we're looking to add to our portfolios. We talk with their competitors. We combine that with a macro approach of what's happening in the economy. For instance, we were underweighted on the financials the past three years.

Our general feeling is that the upcoming earnings will be disappointing this quarter and worse than the market anticipates. We've had a 25 percent run up in stocks. We think we may go back and test the lows. And that's when we're going to start adding back in. We really aren't market timers, but when you've been in this business for a while, you realize some times are better than others to be buying.

We're looking for more quantitative data that the economy is truly starting to trough. We've seen the steep downward slope with housing, capital expenditures and the GDP. We're paying attention to the transportation sector and the purchasing managers index. Are companies starting to rebuild inventories? We're seeing mixed signals.

This has actually been one of our best periods ever in having people interested in the firm. Not only are new people coming to see us, existing clients are giving us more money from other accounts and other managers. We think a lot of that is because of our conservative style.

Now is a time not to make rash decisions in getting into or out of the market. It's a really good time to do that inventory that we do at the beginning and to make sure the approach you've been taking is a correct one. ● >>>

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Hefren-Tillotson



Don Belt is chief investment officer of Hefren-Tillotson, which has over 10,000 clients, \$4 billion under management and no required minimum.

OUR APPROACH IS GROUNDED in having a master plan, a written financial plan that covers all aspects of the client's situation, from estate planning to retirement, education, insurance needs and investments. Part of that is identifying those points down the road that you want to get to.

We have the flexibility to use any type of investment. We find that mutual funds or exchange-traded funds are more suitable for most individual investors. Most people don't have time to evaluate, buy and sell stock decisions. And professionals who devote all their time to that are going to make better decisions. There's no money manager out there who is the best in all of those areas. So you can do a better job using these different funds and their professionals and getting the diversification.

I break investors into two groups. People in the accumulation phase are still working. This crisis has been a setback for them, but it should prove to be a longer-term opportunity to buy in at lower levels. They should get back to basics about how they're allocating their resources. Establish an emergency reserve of cash in case you get laid off. Keep funding retirement accounts and maximizing 401(K) contributions. There might be a tendency to say, "My accounts are down 30 percent—why would I want to keep adding to it?" That's the opposite of what you should do. Do your best to eliminate or minimize debt, which has been a key driver of this problem. And build your savings.

The second group is people in the distribution phase. They've been hurt the most by this. They're relying on investment assets for a portion or all of their income. If their assets took a big hit, their take-home pay is also taking a big hit. There's not really an easy solution. We make sure they have cash set aside for near-term spending and bonds for income on a three-to-10-year basis. The remaining assets—stocks, commodities and real estate—have a longer-term horizon, and they can allow those assets to recover.

We're seeing new clients who've worked with another advi-

sor and feel they were inappropriately invested or that their advisor abandoned them. When choosing an advisor, look at the credentials and experience. We've been in business since 1948. See if they are certified financial planners. Basically you're putting your life savings in their hands, so if you don't trust them, that's an immediate deal killer. What's the depth of the organization behind that person? Is that advisor operating alone, or are there other resources they can tap that benefit you?

The lowest cost is not always the best. Usually you're sacrificing something. Look for potential biases. Do they have incentives to sell proprietary products including their firm's mutual funds? You want someone who can look at your situation objectively. We're an independent, privately held firm, and we're in a position to do what's right and best for the client.

Right now, governments around the world are taking unprecedented policy measures, and domestically we think that will result in two things: higher taxes and the risk of inflation. To protect against that, we recommend municipal bonds, which are federal and can be state-tax free. For inflation, we're looking at commodities, which are a natural hedge, and treasury inflation-protected securities.

The financial discipline of America needs to change. The sooner people can recognize that and adjust their spending and savings habits, the better off they'll be and the quicker they'll recover. Changing habits is tough to do, and we've dug ourselves into a pretty big hole with the debt that we have as a nation. It's not going to be easy, but it is doable. ●

Northwestern Mutual



Kevin Miller is managing partner of Northwestern Mutual Financial Network, which has over 55,000 clients and \$619 million under management and \$1.9 billion in life insurance cash value.

MOST PEOPLE EXPERIENCE MANY different financial needs that can be summarized into three stages: risk management, wealth accumulation and wealth preservation and distribution. We believe a foundation of risk management is the key to protecting yourself and those you care about against challenges that occur when people live too long, die too soon or become sick or injured. Insurance

helps protect against the unexpected. However, the cash value in permanent life insurance also has many living benefits. It can be an emergency fund for the family or help fund college or retirement. And it's not subject to the stock market.

Northwestern's been in Pittsburgh since the late 1880s. We've evolved to provide and help our clients achieve financial security—not just in insurance, but also in savings and investment vehicles. We offer several different investment products including mutual funds. On the investment side, we don't have proprietary products. On the insurance side, clearly we want to put as many people as we can with Northwestern Mutual because we feel it's the greatest value. Our dividend history rate has stood the test of time, and we're very proud of it.

We prepare a report outlining goals and objectives to get them where they want to go. Generally, it's a combination of increasing your savings, your investments and your insurance.

Our bias is that in order to achieve complete financial security, you need to start with a strong base of savings and risk-based planning. We try to get everyone to save 20-25 percent of their gross income in a variety of different products, including retirement plans, education accounts, savings accounts and insurance. Most people live a year or two ahead of their income, and we think they should live a year or two behind it. It's a complete shift in their thinking, but given recent events, it's getting a lot easier to persuade them to shift to savings and

conservative investments.

We've seen an increase in interest in our permanent life insurance and the guarantees it brings. Keep in mind that life insurance is primarily for risk management. When clients look at their portfolios tied directly to the market, they've been seeing values decline. When they're looking at their life insurance policy's cash values, they're seeing consistency. People assume their cash values decreased this past year. They haven't; they've continued to rise. And the dividend for 2009 is 6.5 percent. It's a great place for those long-term dollars to steadily grow tax deferred over time.

We're a mutual insurance company, as opposed to a stock company. All of our decisions are based on what's best for the policy owners, not the shareholders, because in a mutual company, the policy holders are the owners. The leaders of a stock insurance company have to answer to the shareholders on a quarterly basis. Their decisions are based on deriving 90-day results. Ours are tied to a much more long-term time horizon. So we don't have to come up with new products that may be exciting for the short term to generate sales.

We're not immune to what's gone on in the market. About 20 percent of our overall portfolio is in the market. The result was a decrease in our dividend from 7.5 to 6.5 percent. But we have a very strong portfolio, and our AAA rating was just reaffirmed by Moody's with a stable outlook. ● >>



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PNC Wealth Management



Michael Saghy is director of investments for PNC Wealth Management. In Pittsburgh, PNC has roughly 2,000 wealth management clients, with \$700 million under management. The minimum is \$1 million in relationship value, meaning all PNC-related accounts together.

IF A NEW CLIENT is coming to PNC because of dissatisfaction, it's because of lack of communication and/or performance. But performance may not necessarily be compared with the market. It may be that they lost more than expected or gained less than expected. We create the best risk-adjusted portfolio for them to meet a realistic expectation of return.

We're an open-architecture firm. We have a truly objective partnership with outside money managers and mutual funds to bring the best to our clients. Most companies do not have that, so it's not an arms-length transaction. We're also a comprehensive provider of wealth management, including banking, lending, investments, insurance, wealth planning and estate planning. We have the capabilities to do all of that, rather than have someone have to get together with multiple outside parties to coordinate everything.

We are still seeing a lot of inflow—2008 was a record year for new business in Pittsburgh. But there's a much more conservative client mentality. Not just traditional stock and bonds investing, it may include a larger percentage to a retail bank account because of that safety and fear factor.

We're telling people they don't want to unilaterally sell in a down market. Eighteen months ago, everyone was ultra positive. If they used to be 75 percent in equities, they may have had a false sense of what their risk tolerance was. We're also including a lot more asset categories—for instance real estate and convertible bonds, where you get a bond that also takes part in the capital appreciation in the equity markets.

We're going to be in for a bumpy ride the next three to six months. While we don't expect to revisit the lows, we see a shallow trading range. A temporary spike will be just that—temporary. We don't see a steady recovery in the market until probably the fourth quarter. That'll be a prelude to the economic recovery, which we don't see until the second quarter of 2010.

Our advisors are asking, "What are your short-, medium-

and long-term needs?" The short-term will be ultra safe, probably with minimal yield. In the middle, we'll move into municipal or short-term bonds. Longer term, you have to take advantage of the equities. We like large-cap equities, but we also see other opportunities. What's the best way to hedge against inflation? That could mean more tips (Treasury inflation-protected securities). It could include opportunities to get back into foreign markets to offset the declining dollar.

In choosing an advisor, the first thing is become comfortable with that person. You have to do personal interviews. It becomes a relationship management situation, and that's only achieved by sitting down and talking to people. Comfort and confidence in your advisor evolves. You don't get that right away. But you get a perception.

Look at how they're compensated—both the individual and the institution. If they're compensated based on what they sell you, that may not be the best. Fees should be a percentage of the market value of the investments.

There's a lot more complexity to the market now than there was 18 months ago. You need to utilize resources that are dedicated to the changing ebbs and flows of the economy on a day-to-day basis. You have to react now and be proactive instead of buying something, closing your eyes and holding it 'til a future date. ●

Private Wealth Advisors



Stuart Miller is chairman of Private Wealth Advisors, which has 400 clients, \$600 million under management and a \$1 million minimum.

THIS IS A TIME TO BE VERY CAUTIOUS. The economy and financial system are very opaque right now. As much as we'd like to think there's transparency, we don't have a good sense of how much worse this could be. So I am not in the camp saying, "The markets run in cycles, and in the long run everything works out. Don't sell now because the market will eventually come back." I think that mentality is going to get debunked.

There could be as much as \$2 trillion of additional debt that the banks have not written down yet. That's a big num-

ber. In the last few weeks, the money center banks have reported these terrific earnings for the first quarter. But if you really understand those numbers, they don't tell you anything about the bank, and they truly mask the problems that lie ahead for them.

The rulebook by which we played and the things financial advisors thought they knew—the conventional wisdom—have been thrown out the window. The problem is, we're not exactly sure what the new rulebook is going to look like. And that's all on top of the uncertainty inherent in any financial system: When is inflation going to start? How big will it be? When will the economy turn?

Our practice is really geared toward protecting clients' money first and, second, getting a good return. This may be an historic opportunity. Or it may be that we're standing on the edge of a precipice ready to go over. I don't know which. My action is to avoid going over the precipice, even if it means giving up the historic opportunity.

Our typical client's portfolio has a reasonably conservative portfolio of 35 stocks. In the past, we had individual stocks and bonds and some mutual funds. If I thought the medical device industry was a place to be, I had to find a fund manager who said he's invested heavily in medical devices. Now I just go out and find the Exchange Traded Fund for medical devices, and I don't pay the fund manager.

I don't know that I'd ever use a stock mutual fund again. I don't think they add value. The big money managers—Vanguard for example—had billions invested in major U.S. companies, including Lehman Brothers, Bear Stearns and Citigroup. With that leverage, what did they do to help us avoid or expose what was going on with those companies? They did nothing. And the amount of research most financial advisors do is nil. They're picking mutual funds, and they don't know what's going on with those funds. I think we're going to see that the emperor doesn't have clothes on. ●

Smithfield Trust Co.



Robert Kopf is CEO and Chairman of Smithfield Trust Co., which has 240 clients, \$650 million under management and a minimum of \$500,000.

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E'RE A BANK WITH TRUST POWERS ONLY. If you took PNC's trust department and spun it out as a separate entity, that would be us. This is the way trust banking was done over 100 years ago.

Trust banks were separate from commercial banks. Then over the 20th century, the commercial banks gobbled up all of the trust banks. So we're going back in time.

We manage money for people, but as a bank, we act as a fiduciary, trustee, executor and guardian. About half of our money is in irrevocable trust accounts. And half of our money is in investment management accounts.

We are a manager of managers. We don't use mutual funds, except money markets. We hire third-party bond, equity and alternative investment managers to run money for our customers. A broker will take a fee when he puts you into a mutual fund. We think that creates an element of conflict. At Smithfield, the money goes the other way. We pay the third-party stock or bond manager out of our pocket. It's very transparent.

The thing that really distinguishes us in my view—and that we've evolved into—is alternative investments that don't correlate to stocks and bonds. That's one reason our accounts haven't been clobbered as much as accounts managed by just equity managers buying stocks. The alternative investments are usually in partnerships, so the customer bears that fee. Examples are oil and gas, distressed debt and two very, very different hedge funds—both are fairly conservative. We also have commodities/futures and private equity—they're not for everybody.

It's a perfect time for alternative investments. The non-correlation to the stock and bond markets has served our clients well. We'll always have equities, but we're not adding to them. We're not saying the troubles are over and it's time to dive into 80 percent equities. I just don't see the catalysts that are going to turn the economy in the next years. If anything, what's happening in Washington makes me more frightened in terms of debt and inflation.

Are we conservative? Yes and no. On balance, we like value stocks over growth, which makes us a little more conservative. Some people would say that, because we have disproportionate weighting in alternative investments, we're not conservative. I disagree. Studies show that non-correlation to stocks or bonds decreases risk. Our reputation for having disproportionate investments in alternatives has gotten out, and that has helped us.

Our main competitors used to be the three bank trust departments—National City, PNC and Bank of New York Mellon. They're all in turmoil. We have only one office, and it's in Pittsburgh. People don't like their bank being located in New York. We send statements with a personal letter from the trust officer each month. That forces us to look at the account, and it makes sure that the customer isn't surprised and blindsided.

We've seen growth, especially in Pittsburgh with the elderly population. And the courts assign us guardian accounts, where a person may be incapacitated. We also do special needs trusts. They're very labor intensive, and a lot of our competitors shy away from them. **P Q**