

**SPECIAL  
POINTS OF  
INTEREST:**

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## Time to Revisit Risk

The combination of declining home values, a banking crisis, and turbulent financial markets made 2008 a year that investors won't soon forget. In the midst of unsettled financial markets, many equity investors faced decisions about how to position their portfolios for the future.

During volatile financial times, it is only natural to reconsider your own personal risk tolerance and review the role of risk in your portfolio. These guidelines can help you determine the amount of portfolio risk that is appropriate for your situation.

### Choose Appropriate Vehicles

Many debt instruments, such as investment-grade corporate bonds, government bonds, and certain types of short-term debt, are typically considered more conservative than stocks, with some exceptions. It's important to note that, even though investments that offer potentially higher returns generally carry higher risks, the opposite is not necessarily true. Just because something is risky doesn't mean it has a higher return potential. For this reason, it is critical to consider exactly what risks an investment poses in order to determine whether you are exposing yourself to unnecessary risks. The return and principal value of

stocks and bonds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

### Consider Your Time Horizon

Some investors are risk-averse because losses could potentially affect their current incomes. Although most people will need to continue pursuing stock market returns well into their retirement years, even if only on a limited basis, it's wise to reduce your exposure to riskier investments as you get closer to retirement and especially after you retire. Individuals who are expecting to retire in three to five years may want to begin shifting assets to more conservative investment vehicles in order to avoid losses from which they may not have time to recover.

### Review Personal Preferences

Finally, remember that your own personal risk tolerance can change over time. If you have become anxious about recent losses and/or the potential for future losses, you may want to rebalance your portfolio away from higher-risk investments. However, such a move should be



considered carefully, in light of the fact that you may be increasing the risk that you will not achieve your financial goals.

If your risk tolerance has shifted, it may be time to revisit the role of risk in your portfolio. We can help you review your investment strategy in light of your current situation.

# Historic Stimulus Strives to Spur Economy

In an attempt to address the nation's ongoing economic challenges, Congress has passed and the president has signed the American Recovery and Reinvestment Act of 2009. The \$787 billion package is remarkable not only in its scale and scope but in the speed of its passage as well.

The bill combines \$282 billion in tax relief with more than \$500 billion in government spending that ranges from meeting basic human needs to investments in infrastructure and scientific research.<sup>1</sup> The resulting increase in the federal budget deficit is expected to equal about 2.5% of gross domestic product for two years in a row.<sup>2</sup> Congress began work on the legislation even before the inauguration of President Barack Obama, who signed the bill on February 17, 2009.

A slowing economy that shed more than 3.6 million jobs in 2008 helped create the urgency for a stimulus package that would attempt to boost employment and economic activity.<sup>3</sup> The Congressional Budget Office estimated that the legislation will save or create 800,000 to 2.3 million jobs by the end of 2009, 1.2 million to 3.6 million jobs by the end of 2010, and 600,000 to 1.9 million jobs by the end of 2011.<sup>4</sup>

The stimulus package totals more than 1,000 pages. Here is a rundown of the most far-reaching programs.

## Taming Taxes

Individual taxpayers with modified adjusted gross incomes (AGIs) not exceeding \$75,000 and married couples filing jointly with AGIs not exceeding \$150,000 will receive tax credits of up to \$400 and \$800, respectively, for the 2009 and 2010 tax years. Only individuals with earned income qualify for the Making Work Pay tax credit; it isn't available to single filers earning more than \$95,000 and joint filers earning more than \$190,000. Workers will take the credit through a reduction in wage withholding; other qualified taxpayers can claim the credit when they file their 2009 and 2010 tax returns.<sup>5</sup> The hope is that workers will be more likely to spend the extra dollars and further stimulate the overall economy if they associate it with a steady gain in income, rather than applying a lump-sum payment to savings or paying off debt.

## Spending Plans

Some of the program's largest expenditures center on investments in infrastructure, energy, scientific research, health care, and education and are intended to create jobs and modernize at the same time. Here's a breakdown of some of the spending:<sup>14</sup>

- More than \$43 billion for programs related to energy, including energy efficiency and renewable energy programs, electric power transmission projects, and modernizing the electric power grid.
- \$111 billion for infrastructure

and science, including highway improvements, public transportation, bridges, watershed rehabilitation, and bringing broadband services to underserved areas.

- \$59 billion for health care, including \$10 billion to the National Institutes of Health and \$17 billion to computerize medical records.
- \$53 billion for education and training, including \$17 billion in Pell grants and other financial aid for college students.
- \$144 billion in aid to states and localities in order to avoid cuts in Medicaid, education, and public safety.

The stimulus package is by far the most expensive in our nation's history, but it is also the first stimulus bill to have a dedicated Web site, [www.recovery.gov](http://www.recovery.gov). The site is intended to provide accountability and transparency to enable the public to track how the money is spent.

If you have questions about the stimulus program, or how the new programs may affect your financial situation, please don't hesitate to call.

1–3) *The Wall Street Journal*, February 18, 2009, and February 14, 2009  
4, 10–11, 14) Congressional Budget Office, 2009  
5, 7–9, 12–13) CCH Tax Briefing, February 17, 2009

## What You Can Learn from LIBOR - This Obscure Benchmark Can Hold A Wealth of Clues; What the Neighbors Think

If you've ever owned an adjustable-rate mortgage, you might be familiar with LIBOR, the London Interbank Offered Rate. But have you noticed the extra attention this interest rate is attracting? To investors around the world, LIBOR is more than a mere benchmark for short-term interest rates. It's a proxy for how global markets view the outlook for the U.S. economy.

### Over There

About half of all U.S. adjustable-rate mortgages (ARMs) are tied to LIBOR levels.<sup>1</sup> The behavior of this interest-rate index determines whether ARM payments will rise, fall, or remain level each time the loans reset. Worldwide, some \$300 trillion worth of loan contracts are tied to LIBOR. That comes to \$45,000 for every man, woman, and child on earth.<sup>2</sup>

The British Bankers' Association (BBA) actually publishes 150 LIBORs, covering 10 different currencies and 15 loan maturities ranging from overnight to one year.<sup>3</sup> But the most closely watched is the overnight dollar LIBOR, which tracks the interest rates at which the most creditworthy London banks are willing to loan marketable sums of American dollars to each other overnight. Banks don't like to leave money idle, even if only for several

hours, so they tend to loan whatever surplus they have available to other banks that need to raise funds.

Once every banking day, traders at the leading banks report to the BBA the interest rate at which they *could* borrow money (they do not report the cost of actual transactions, only what rates are being "offered," as the name indicates). To prevent any manipulation of the calculation, the association throws out the highest 25% and the lowest 25% of the quotes before averaging the rest to arrive at the benchmark rate.<sup>4</sup>

### Money Hub and Hubbub

In other words, LIBOR is an indication of the level of trust in U.S. finances. Because the U.S. financial markets have relied heavily on foreign capital, global opinions are important. It would be unlikely for stocks to sustain a prolonged rally when LIBOR is outside the world's comfort level.

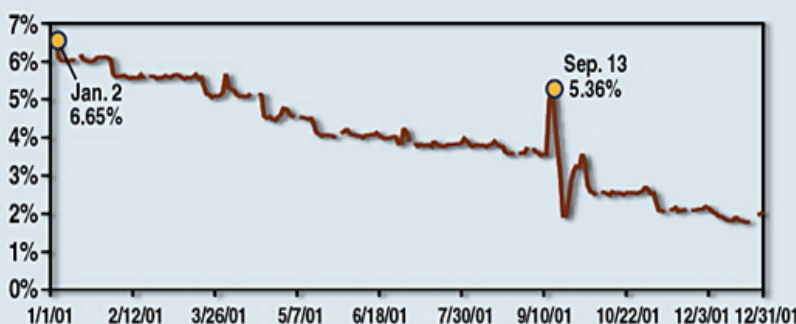
Why do London banks hold so much sway in money markets? London banks began to lend and borrow U.S. dollars (dubbed *eurolldollars* when they traded abroad) after the pound failed to return to international currency status following World War II.

This helped create a chain of events that eventually led London to achieve prominence in international money markets. Today more than 20% of international bank lending and 30% of foreign exchange transactions take place through offices of London banks.<sup>5</sup>

LIBOR is becoming an important indicator of investor sentiment. Keeping an eye on this benchmark can provide a good source of clues about the future.

### LIBOR in Action

LIBOR's behavior in 2001 is a good example of how U.S. events can influence international interest rates. The rate was fairly high in January, possibly because of the uncertainty associated with the 2000 presidential election, but eventually fell as concerns about a peaceful transfer of power were allayed. The events of September 11 also caused the rate to spike briefly. Gaps in the line represent banking holidays.



Source: Haver Analytics, 2008, showing U.S. dollar LIBOR for the period 1/2/2001 to 12/31/2001. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results.

The overnight dollar LIBOR is important to U.S. investors because the rate is influenced by how London banks view the risk of lending American dollars. The rate generally goes up when the banks believe the likelihood of repayment is low.

1-3) *London Review of Books*, September 25, 2008  
4-5) British Bankers' Association, 2008

# What's New at Brandywine

*500 days and 50% - You are probably wondering what those to numbers have in common.*

That is the number of days it took to erase 50% of the value of the equity markets in which took 13 years to build.

**From  
Raymond's  
Desk**

I am as ready for Winter to end and Spring to begin as I am for the recession to be over and the markets to rise again. The warmer weather the past week has enabled me to get out and do some bike riding.

I recently watched "Slumdog Millionaire" to see what all the fuss was about at the awards over the movie. And all I can say is WOW! I see why it was granted so many awards. I could not pull myself away from the screen and it was captivating at every turn. If you have not seen it I would definitely recommend it.

**From  
Justin's  
Desk**

Wow...so February was an eventful month for me and Francesca. I am finally back to work full time after my 2 week jaunt in the ICU and recovery at the hospital. Three surgeries and three blood transfusions later, I am back on my feet. I had a pretty extensive blood clot in my right leg that extended from my knee to the major vessels in my stomach and am now on blood thinners. All is well and the doctors are amazed at my recovery. Thank you to all who sent gifts, prayers, and thoughts...these things always make horrible events seem more pleasant.