

AMERICAN MONEY MANAGEMENT, LLC

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AMM'S CURRENT OUTLOOK

Global asset markets have recovered significantly from their early March lows. Still, most asset classes including stocks, commodities and real estate remain significantly depressed from their bull market highs reached in October 2007. In many ways, this period has challenged long held assumptions about risk and reward. The widely accepted ideas of "buy and hold" and "broad diversification" that characterized the investment dogma of the 80s and 90s have come under fire. As value-oriented investors, we have always believed that the price you pay for any asset, whether it be a home, business, work of art, etc. will ultimately determine your return. Therefore, "buy and hold" only makes sense if you buy at the right price; and, "broad diversification" only makes sense if your diversified basket of assets was purchased at favorable price levels.

While our client portfolios have benefited from the recent strength in global asset prices, we recognize that we are in the nascent stages of economic recovery. The good news is that the worldwide dislocation in asset and credit markets continues to provide for opportunities to buy assets on the cheap. As we outline below, however, the recovery is fragile and will require investors to be more tactical and opportunistic in their investment approach.

THE SHAPE OF THE RECOVERY

Over the last 6 months, economic and market pundits have been obsessed with "calling" the shape of the U.S. economic recovery. Those calling for an "L" shaped recovery liken our situation to the Japanese style, long deflation that occurred after their market peaked in 1990. Japanese markets as measured by the Nikkei are still 74% below their all time high reached almost 20 years ago. (Ask domestic Japanese investors about buy and hold.) On the opposite side of the debate is the "V" crowd who expect a robust recovery similar to the 2003 post recessionary period.

We believe the dynamic nature of the U.S. economy mixed with relatively stronger demographics will allow us to avoid a Japanese style experience. Nevertheless, the vigorous growth driven by the dual tailwind of expanding consumer credit and robust housing during the most recent U.S. economic expansion is unlikely to be matched for many years to come. Global bond manager Pimco has called this new period of slower growth and lower expected asset returns "The New Normal". To combat the forces of potentially slower economic growth on the domestic front, it will be important for U.S. investors to seek more of their returns globally and through non stock-oriented asset classes like commodities and emerging market bonds.

TRANSITIONING TO A PRIVATE SECTOR RECOVERY

The first phase of the economic recovery has been led by the federal government. Record amounts of fiscal stimulus coupled with a "zero" interest rate monetary policy have taken the economy off life support. Cash for clunkers, the tax credit for new home purchases, Fed purchases of virtually all mortgages being written (which has supported the mortgage market and kept mortgage rates low), and a surge of unemployment benefits have supported and stimulated demand. *While the government has provided support to the economy, we will not have a real, lasting recovery until the private sector starts to grow again, and the Fed is able to withdraw a good deal of its support.* The long-term health of the economy will ultimately be in the hands of private sector growth.

(OVER)

TRANSITIONING TO A PRIVATE SECTOR RECOVERY (CONTINUED)

Like other western developed nations, the U.S. economy relies heavily on consumption to stimulate economic growth. While the stock market may have rallied significantly from its most depressed levels, we have not seen a similar rally in underlying consumer confidence. In our view, the combined effects of the government stimulus, cheap money, and a weak dollar have helped drive the stock market higher. The tailwinds that propelled the domestic consumer during the expansion of the economy have now turned to headwinds as housing remains under pressure, credit continues to contract, and the employment situation remains horrible. In fact, the Conference Board's consumer confidence survey, while improved, still registers at a fairly dismal 53.

Q3 REVIEW

Year-to-date through September 30th, the S&P 500 has returned 19.26%, International Stocks (EAFE) returned 25.49%, and bonds (Morningstar Intermediate Bond Average) returned over 12%. During the third quarter, we increased exposure to both traditional and alternative energy investments. Where appropriate, we also added exposure to Global Real Estate via the Alpine Premier Properties Real Estate Fund. While we do not see inflation as an immediate threat, we do believe it will be a significant challenge for investors in the coming years. These assets continue to trade at what we feel are favorable price levels and should perform well in an inflationary environment.

Please contact us if you would like to review your individual portfolio performance and portfolio strategy or if your investment objectives and/or risk tolerance have changed since we last spoke.

As always, we greatly appreciate the opportunity to manage your investment assets.

Your Portfolio Management Team

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