

AMERICAN MONEY MANAGEMENT, LLC

SEC Registered Investment Advisor

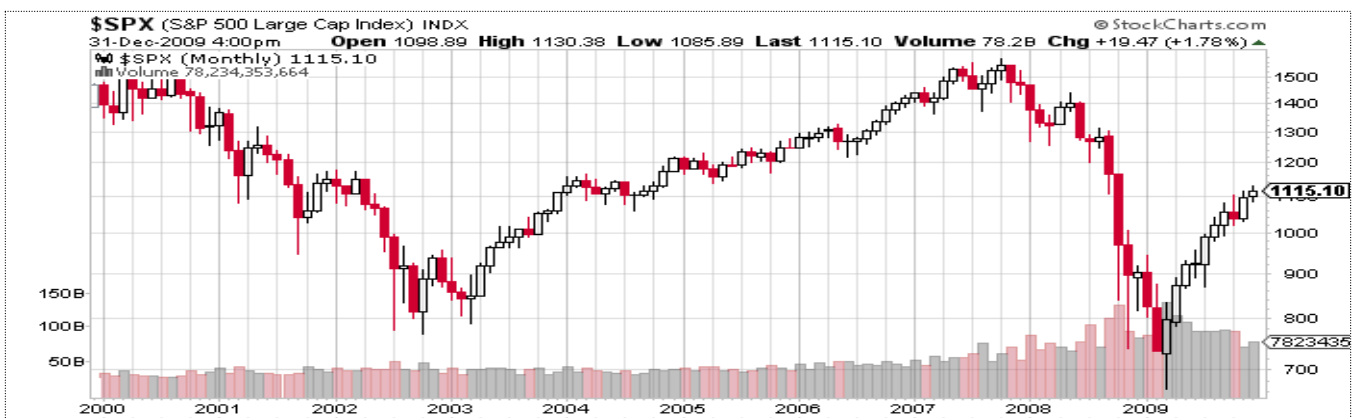
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THE LOST DECADE (FOR PASSIVE BUY AND HOLD INVESTORS)

"The future has a way of arriving unannounced." - George Will

2009 marked the end of the worst decade for U.S. stocks in history. Over this period, the price return on the S&P 500 (Chart A) was -24.1%. At the end of 1999, few had predicted that the first decade of the new millennium would offer such miserable returns to passive "buy & hold" equity investors. It was even worse for people who bought and held the most popular stocks (after they had already gone up during the 90's) on December 31, 1999.

Chart A



According to an article on 12/21/09 by Brett Arends in the Wall Street Journal, "the most widely recommended stocks 10 years ago, according to a quick survey at the time in the Washington Post were: America Online, Cisco Systems, Qualcomm, MCI WorldCom, Lucent Technology, and Texas Instruments". \$1,000.00 invested in these popular, widely recommended stocks on December 31, 1999 had turned into \$291 by the end of 2009. This is not surprising given investors willingness to extrapolate the recent past in making decisions about the future. All of the widely recommended stocks listed above had experienced massive returns by the end of the last decade. And the broader market, as measured by the S&P 500, had risen more than 300% (Chart B) by December 31st, 1999.

Chart B



One might view the poor returns of the last decade as a consolidation of the above average returns of the 90's. Looking forward, we would view another "lost decade" for equities as improbable.

Regardless of what the next 10 years have in store, we believe that the job of a money manager is not about making bold predictions/bets on future outcomes, but rather about *understanding the current investment landscape and investing accordingly, while taking steps to protect capital when it appears prudent to do so*. This process (i.e. recognizing that the future is unknowable) allows us to stay mentally flexible to new data. Making predictions, on the other hand, can cause one to stay committed to their position even in the face of new evidence contrary to their prediction. The idea is not to predict the future, but to seek to understand the present. Currently, we believe market participants, and therefore asset prices (stocks, bonds, commodities and real-estate) are being driven both by inflation expectations and the continuation of the global economic recovery that began in 2009.

INFLATION

"Paper money eventually returns to its intrinsic value - zero." - Voltaire

Inflation is a very real danger for any investor and can have a major effect on asset prices. Fixed income investors may be particularly harmed by a high level of inflation because their bond investments generally do not provide for the same degree of price appreciation as stocks (which can help to offset the effects of inflation). With massive government stimulus, soaring federal and state deficits, and near zero interest rates on savings, it would appear on the surface that a return of robust inflation is only a matter of time. CPI (a widely followed measure of inflation), however, is currently running at a low annual rate of 1.7%. As Chart C shows, in 2008 the U.S. entered its worst deflationary (negative price growth) phase since the great depression and has since only slightly recovered.

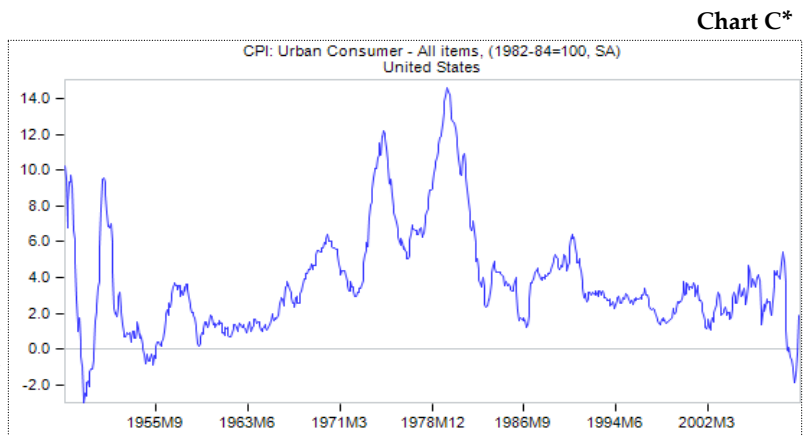
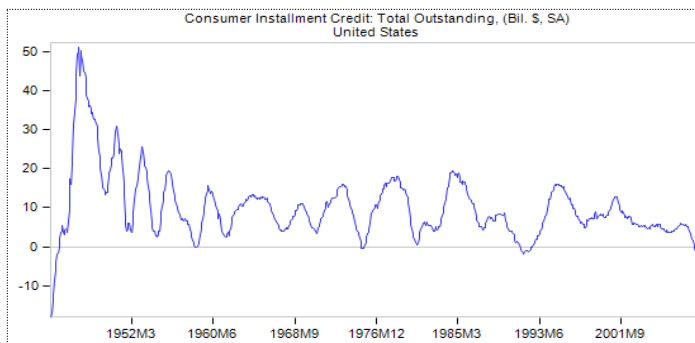


Chart D*



To have a high degree of inflation requires either a huge increase in aggregate demand or a similarly large decrease in the supply of goods and services. Neither condition is currently present or likely for some time. High unemployment and low capacity utilization have created a large level of "slack" in the economy. Perhaps even more importantly, however, is that while rates have remained low, consumer credit growth has remained constrained (Chart D).

Credit is the backbone of the capitalist system. In the November reporting period, consumer credit contracted by \$17.1 Billion. For now, the consumer has retrenched. While the data suggest that runaway inflation is not a short-term threat (<1 Year), we are concerned about the longer term effects of massive fiscal deficits and zero return on cash savings for an extended period of time. Accordingly, we have provided most of the accounts we manage with some degree of inflation indexed bond and commodity oriented exposure (which generally do well in an inflationary environment). As we see indicators of higher inflation going forward, we will look to increase our allocations to these asset classes.

* Source: Moody's, Economy.com

GLOBAL ECONOMIC RECOVERY

"The United States is spewing a potentially damaging substance into our economy - greenback emissions." - Warren Buffett, August 2009

It is a commonly held view that the stock market is a leading indicator of economic activity. Over many years, we have observed that this is generally the case. Exceptions typically occur at tops and bottoms (i.e. October 2007 and March 2009). Currently, global asset markets are forecasting a continuation of the economic recovery that started last year. There seem to be two polar views regarding the durability of this recovery: the skeptics view and the cyclical recovery view.

The skeptic views the recovery as driven mainly by massive government stimulus and easy monetary policy, not believing that the economic expansion is sustainable. In addition to historically high unemployment and consumer credit contraction, weakness in the residential housing market is a cause for significant concern among the recovery skeptic. New home sales surprised on the downside in the November reporting period, falling by 11.3% from the month before. The New Home Sales chart (Chart E) illustrates the massive housing bubble (and subsequent deflation) of the last decade. Additionally, the number of new homes sold appears to have experienced a "dead cat bounce" and resumed its downward trend. Housing strength was an important part of the cyclical recovery following the '01-'02 recession.

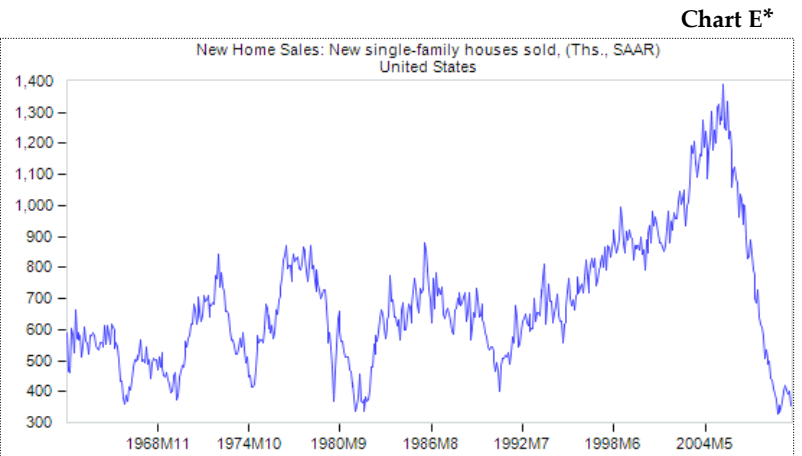
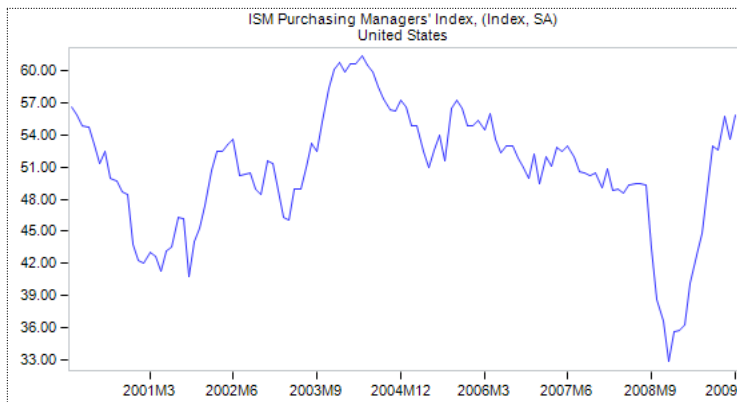


Chart F*



While the skeptic has real cause for concern, post recessionary periods over the last 30 years have been dominated by the cyclical recovery view. Even after the recession that followed the bursting of the technology bubble and the tragedy of 9/11, the U.S. economy experienced a broad cyclical recovery that lasted several years and brought the DOW and S&P 500 to new all time highs by October 2007. In fact, the economy is expanding and many indicators continue to improve. The ISM Purchasing Managers Index (PMI) is an indicator of economic health in the manufacturing sector (Chart F). The index is currently at 55.9 (readings above 50 are considered expansionary) indicating that the sector is expanding, and therefore the general economy should be doing likewise. In addition to the PMI, the Weekly Leading Index (WLI), a leading indicator of economic activity, continues to signal economic expansion.

For now it is clear that the market is favoring the recovery view. We respect the current economic and market trend and, where appropriate, continue to position our managed accounts and funds towards growth. As always, however, we remain vigilant in recognizing and understanding the risks to the recovery and will become more defensive if we believe it is appropriate to do so.

* Source: Moody's, Economy.com

2009 YEAR IN REVIEW

For 2009 the S&P 500 returned 26.5%, International Stocks (EAFE) returned 31.8% and bonds (Barclays Capital US Aggregate Bond) returned 5.9%. After declining for most of 2008 (including a total price meltdown in the fourth quarter), most asset classes bottomed in March of 2009 and experienced robust returns for the full year. Our accounts generally performed well during this rebound year, having healthy exposure to most recovery asset classes. Stocks, real-estate and commodities all recovered from oversold conditions. The large supply of sidelined cash raised throughout the financial crisis of 2008 has begun to shift back into these assets, providing both buoyancy and support to market prices. Moreover, the lack of any real inflationary concerns in 2009 caused most bond oriented investments to perform very well throughout the year.

2010: THE YEAR FOR BIG DIVIDENDS?

According to the latest analysis from Standard & Poor's, 2009 was the worst year in history for dividends. Dividend cuts in U.S. traded common stock cost investors over \$58 billion in income, with 804 companies reducing cash payments to shareholders. If history is any guide, Standard & Poor's suggests that the worst is over for dividend cuts. It is estimated that dividends will likely rise in 2010 and return to their pre-2009 levels sometime before 2012 or 2013. For our clients, we are finding well run companies with strong balance sheets and the ability to pay increasing dividends over time.

Please find a copy of our current Privacy Notice. We can also provide you with a current copy of our SEC Form ADV Part II, at your request. Should you have any questions regarding your investment account(s), or if there have been any recent changes to your investment and/or retirement objectives, please do not hesitate to call us.

Thank you for entrusting our firm with the management of your assets.
Wishing you a Happy, Healthy and Prosperous New Year!

Your Portfolio Management Team

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