ROCKBRIDGE INVESTMENT MANAGEMENT, LLC

Financial Common Sense

July 2011

Craig A. Buckhout
CFA

Anthony R. Farella
CFP®

Rockbridge Investment Management is a group of like-minded professionals working with a select group of clients with whom we can have a significant impact. Everything we do is focused on building and preserving wealth for our clients. We help remove complexity so clients can focus on the simple but difficult process of successful investing.

Rockbridge Investment Management, LLC

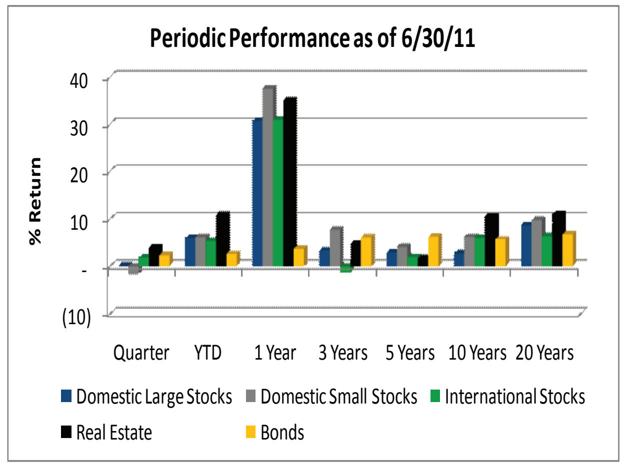
101 South Salina Street
Suite 400
Syracuse, NY 13202

Phone: 315-671-0588
1-888-689-2351
Fax: 315-671-0589

www.rockbridgeinvest.com

Market Commentary by Craig Buckhout

The second quarter of 2011 provided a rollercoaster ride in the stock market that will look uneventful in the history books. April was a strong month for the market, but by mid-June the S&P 500 had fallen more than 7% from its April high, erasing the first quarter gains and falling back to where it was in December of 2010. In the last two weeks it jumped nearly 5%, recouping the first quarter gains and providing a 6.0% return for the year to date, when dividends are included.



Other markets experienced a similar pattern, as the relevant news was global in nature. Oil prices are up; inflation is threatening the developing economies in China, India, and Brazil; sovereign debt in Greece and some of the other EU countries is a problem; and the US economic recovery remains sluggish. None of these issues are going away, and any hint of growing uncertainty sends markets downward, but any hint of improvement sends markets in a positive direction.

Bonds contributed significantly to portfolio returns in the second quarter, so more conservative portfolios benefited from holding larger bond allocations. This return, once again, came from a decline in rates that drove bond prices higher. The quarterly return of 2.3% for the broad bond market index (Barclays Capital US Government/Credit Index) was nearly equal to its annual yield (interest return). It is worth keeping in mind that the opposite will happen at some point – when rates rise a similar amount, bond prices will fall, and the loss in value will wipe out an entire year's worth of interest income.

"The Sky is Falling!"… Can we please ignore the noise? "Economic worries drove a plunge in US stocks Friday morning, pointing to a sixth straight weekly decline that would be blue-chip stocks' longest skid since 2002" – (*Dow Jones June 10, 2011*)

That headline seems almost silly in the context of a quarter that delivered flat returns on blue-chip stocks, but it apparently sells newspapers, and we read something similar every day the market went down last quarter. Markets are volatile. Enduring volatility is necessary if investors hope to enjoy the long-term rewards expected from stock market investment. So…ignore the noise.

Lessons we should learn from Bernie Madoff
A new book came out recently entitled The Wizard of Lies, and the author, Diana Henriques, was interviewed by Morningstar. She makes several interesting observations including the fact that Madoff did not try to exploit people's greed, as do most

(Continued on page 4)

Mint.com - The Evolution of Personal Financial Software on the Web by Anthony Farella

Most successful investors start out as diligent savers. Saving is the tried and true path to reach your financial goals. For young people, the goal may be a car, a trip or an education. As we get older our goals expand to include buying a home, starting a family, paying for a child's education and saving for retirement. Achievement of any savings goal is dependent on your ability and willingness to **spend less than you make**.

After my first full time job in 1990, I had to take responsibility for managing my own finances. My first budget was quite easy to write since I made very little income and had very few expenses. However, the act of writing down my goals was profound. As life got more complicated I continually searched for easier ways to keep track of my income, expenses and savings goals. Early spreadsheets led to the personal finance software Microsoft Money. Soon, Microsoft and its main rival Quicken dominated the personal finance software market. I spent many hours entering my growing number of transactions. The software became increasingly complex by adding features that I rarely needed or used. Ease of use was not a top priority for either company.

My frustrations were shared by a young engineer from Duke University named Aaron Patzer. In 2005 Patzer was inspired to create Mint.com as an alternative to the frustrating and difficult Quicken product.

Patzer created a simple and easy to use online interface for keeping track of financial transactions. His timing was perfect as online banking had exploded across the country. Patzer leveraged the availability of all that online data to bring the consumer a free resource that could easily and intuitively track all of your transactions electronically. By 2009, the company had 1.6 million users and was quickly bought by Quicken for $170MM. Today, Mint.com boasts about 5 million users. Some of the most impressive features of Mint.com are:

Tracking expenses – When you log onto Mint.com all of your transactions from your various accounts are immediately imported into your Mint.com account. The transactions are categorized for you automatically or you can enter your own categories which will be recognized going forward for future similar transactions.

Overview page – Once your accounts are synced online, you have a quick look at the current balances of all your accounts on one page. Scroll down to see the sum of all your assets, your current liabilities and net worth.

Budgeting – You can create your own budget or let Mint.com do it for you by tracking your expenses over time. It uses inertia in your favor by building a budget based on spending history.

Goal setting – You can set your own savings goals. Mint.com has 10 savings goals that span a saver's life cycle. Use the ones that most interest you and ignore the others.

There are a few drawbacks to consider. The business model for Mint.com relies heavily on advertising and promotional offers from various sponsors. For example, if Mint.com records a transaction fee in your checking account you may see an ad for a "free checking" account from XYZ Bank. It's not clear that such a business model is sustainable, but Quicken clearly saw the future of personal finance being on the web.

I am currently a devoted user of Mint.com. At first I was apprehensive about this online startup having access to my online banking, credit and investment information. I tested the waters with one checking account. Slowly I began to see the power of consolidating all of my accounts in one easy to use online location. My Mint.com account now keeps track of 2 checking accounts, a health savings account, 3 credit cards, a mortgage, a brokerage account and several IRA accounts at Charles Schwab.

(Continued on page 3)

What Everybody Ought to Know About Dividend Paying Stocks by Patrick Rohe

Patrick E. Rohe
CRPC®

All too often lately, I have heard people talking about their individual stock holdings and the income they are providing them in retirement. They love mentioning how they are receiving quarterly income from these companies regardless if the stock market is trending up or down. The stockbrokers refer to this as the "get paid while you wait" way to invest in the market. What they are referring to are dividend paying stocks, and with interest rates where they are today, they seem to have quite the appeal with many investors in retirement. The theory is that dividend paying stocks are providing both a systematic payout method and stability in their portfolio. **Are they being misguided?**

Thoughts to consider:
1. **Dividends are not a "free lunch":** Stocks that pay dividends tend to be large companies who focus less on growth and instead pay out a portion of current income in the form of a dividend to its stockholders. Non-dividend paying stocks reinvest back into the company in an effort to provide more opportunity for growth. All else being equal, dividends are a trade-off, taking current income for slower growth in the company's sales, earnings, and stock price.

2. **Remember to diversify:** Most dividend paying stocks are large capitalization companies. These are great to have in a portfolio, but only if they are accompanied by other equity investments to provide some diversification. We all remember what the market did in 2008, but what many forget is that it was the smaller US companies and international stocks which really helped drive the market back upwards in the following two years.

3. **How much risk are you taking in your portfolio?:** If you own a portfolio of dividend paying stocks then the answer is probably too much. Just because a stock is providing you income does not make it any less volatile. There is an inherent risk in owning stocks, which must be offset with a fixed income investment (bonds) for both the stability and further diversification it brings to your portfolio.

4. **Dividend paying stocks are not an alternative to bonds:** The "Dogs of the Dow" are a well-known index of dividend paying stocks. How well did the strategy do in the recent market downturn? Not so great. As the S&P 500 Index plunged 37% in 2008, the Dogs of the Dow recorded a negative 38.8% return. Bonds held up quite well during the same period. As measured by the Vanguard Total Bond Market Index Fund, bonds were up 5% over the same period.

Coming up with a systematic way to provide yourself with income in retirement is very important, but you want to make sure you do so in a way that makes sense from a risk standpoint as well. Dividends from a stock portfolio will fulfill the income need you may desire at retirement, but it may come at a cost! We, as investors, can't control the direction of the stock market, yet we can control our exposure. This becomes even more important when you are nearing retirement and why proper diversification is crucial. Investing is a long road and when you reach retirement you are only halfway there, so make sure to work together with your advisor to come up with a strategy that makes sense for you!◆

Mint.com - The Evolution (cont.)

I do not believe anything can be 100% secure online, but Mint.com does boast bank level encryption to secure your information. It's a "need only" connection, meaning they cannot access your accounts online to perform actions such as an unauthorized withdrawal or transfer. I would highly recommend Mint.com for anyone who wants to track their expenses or transition from one of the PC based software options like Quicken.◆

Please note that Rockbridge Investment Management has no affiliation with or financial interest in Mint.com and accepts no liability arising from the use of their services.

Market Commentary (cont.)

Ponzi schemes, promising outsized returns. He instead seduced them with consistent returns that exploited their fear of losing money, providing yet another reminder that risk and return cannot be separated in the real world.

She also compares Madoff's operation to the relative safety of a mutual fund when she asks, "…what was he running? He was running a secret, unregistered, unregulated, sort of quasi-hedge fund that produced no prospectuses," whereas mutual funds have auditors, and third-party custodians that can verify the existence of fund assets.

This observation brings some old, but simple truths to mind:

1) If it sounds too good to be true, it probably is;
2) If no one can really explain why it works, you should not buy it; and
3) It is good to trust, but verify.

Since the Madoff scandal broke, many investors have been worried about the safety of their investments. The role of a third-party custodian is critical. Rockbridge relies on third-party custodians, like Charles Schwab and TD Ameritrade, to provide monthly statements to our clients that verify every asset and transaction in their accounts. The Madoff fraud relied on clients accepting verification from a Madoff owned and controlled custodian. Independent verification makes the scheme impossible to replicate. Investment risk cannot be avoided, but the use of an independent custodian is a simple safeguard that should give investors confidence that their assets are safe from fraud.◆

Form ADV Notification

Form ADV, Uniform Application for Investment Adviser Registration, for Rockbridge has been filed as appropriate with the Securities and Exchange Commission, and may be reviewed at the offices of Rockbridge Investment, 101 S. Salina St., Suite 400, Syracuse, NY 13202, or may be obtained by mail by requesting same at this address or by phone at 315-671-0588.

Returns from Various Markets

The following table shows the returns from various markets over periods ending June 30, 2011:

Market/Asset Class	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
Money Market	0.0%	0.1%	0.2%	0.4%	2.0%	2.1%	3.6%
Bond Market	2.3%	2.6%	3.7%	6.2%	6.3%	5.7%	6.8%
Large-Cap Stock Market	0.1%	6.0%	30.7%	3.3%	2.9%	2.7%	8.7%
Small-Cap Stock Market	-1.6%	6.2%	37.4%	7.8%	4.1%	6.3%	9.8%
International Equity Market	1.8%	5.3%	30.9%	-1.3%	2.0%	6.1%	6.4%
Real Estate	4.0%	10.9%	34.9%	4.7%	1.7%	10.5%	11.0%
Inflation	2.1%	3.1%	3.6%	1.4%	2.2%	2.4%	2.6%

Market Benchmark Portfolios

The following table shows returns from our market benchmarks over periods ending June 30, 2011:

Benchmark	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	20 Years
Capital Preservation	1.2%	1.8%	4.7%	3.5%	4.1%	4.0%	5.4%
Conservative	1.2%	3.0%	10.9%	4.6%	4.7%	4.7%	6.9%
Moderate	1.3%	4.1%	17.3%	5.3%	5.0%	5.3%	7.9%
Aggressive	0.9%	4.8%	23.2%	4.6%	4.2%	5.0%	8.2%
All Equity	0.3%	5.5%	31.2%	2.8%	2.7%	4.5%	8.2%

Note: These results were developed by simulating past returns in the various markets included in each benchmark, assuming the reinvestment of dividends and other earnings and deductions of costs totaling 0.20%. The money market is represented by 90-Day Treasury Bills; the bond market by the Barclays Capital Government/Credit Bond Index; the domestic large cap market by the S&P 500; the domestic small cap market by the Russell 2000 Index; and the international equity market by the EAFE Index. This data is presented to show the long-term relationship between returns at various levels of investment risk. It is not intended to present performance results experienced by clients of Rockbridge Investment Management, but is intended to provide a benchmark against which actual performance might be judged. Also, readers should recognize that future investments would be made under different economic conditions. It should not be assumed that future investors would experience returns, if any, comparable to those shown above. The information given is historic and should not be taken as any indication of future investment results.