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HELL WEEK - 1 YEAR AGO

We recently reached the first anniversary of the most shocking week in recent history: September 15–19, 2008.

RECALL THE PANIC

Lehman Bros. declared bankruptcy, AIG was bailed out, hedge funds went bust, and money markets 'broke the buck'. Over the next six months, the end of the world set in. **At least most said so.**

A TURN OF THE CYCLE

Yet six months further on, the best six months since 1933, Hell Week levels were surpassed. Everyone who panicked out of the market during and after Hell Week, and who is still out, is under water.

LESSONS LEARNED

It is not important to know **how** or **when** the cycle would turn, but **that** it would. Faith is more a temperament than intellectual quality, and it is nurtured not by studying the economy at any moment, but by studying history all the time.

MMM Clients kept the faith by staying educated, focusing on the long-term, and trusting us as their advisor. As a result, portfolios are strongly on the rebound, outperforming market benchmarks, and are on track relative to Client plans.

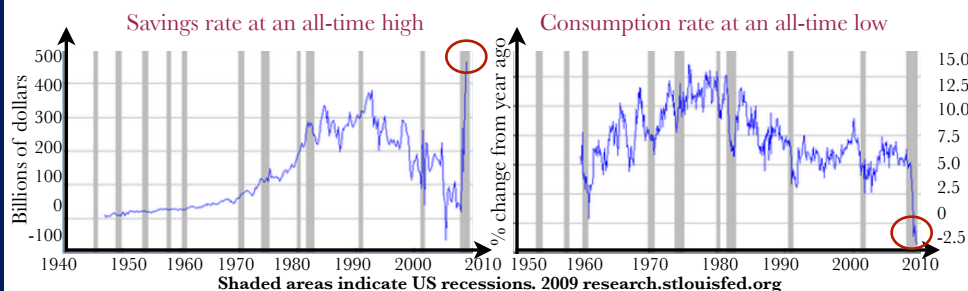
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Market Recap - Q3, 2009

Equity markets continued their upward advance during Q3/09, with the S&P 500 posting a 15% return, its best quarterly showing in the last eleven years. With naysayers predicting a renewed decline, equity markets continued to climb the proverbial "wall of worry". Historically, market rebounds tend to be proportional to their declines. Consequently, with the panic of late '08 and early '09 taking the markets down beyond rational levels, proportionality would indicate the reasonableness of our current move higher over the past seven months, with potentially more room to run. While the theme in Q2/09 was less bad news, the theme in Q3/09 was mixed news (some less bad and some positive). For example, while the rate of unemployment continued downward at a reduced pace, some measures of manufacturing and housing were positive for the first time since the downturn began, a welcome sign for our economy and a confirmation of the market's preemptive move higher.

Going forward, it remains to be seen as to whether the recent good news will intensify, creating a virtuous cycle of positive GDP, improving corporate profits, and eventually private sector job creation. Or alternatively, will the debt deleveraging and tax-and-spend government policies retard or even prevent this potential outcome, generating subpar growth or a renewed decline? We believe that the highest probability outcome is for growth to continue in the US, but at a more subdued pace than has traditionally been enjoyed. Some economists have termed this outcome the "new normal," predicting that consumers will save more and spend less. Similarly, they expect corporations to repair their balance sheets by paying down debt instead of undergoing new projects with their available cash. While these actions are very important to the long-term health of the US economy, and ones that we espouse with our own clientele, they would inevitably create a short-term drag on our domestic economy in the coming years through reduced consumption.

Headwinds to US Growth (Increased Savings & Reduced Consumption)



Outside of the US, there are clearer investment trends that can be identified and potentially exploited. For example, the growth of domestic demand in emerging markets continues to rise, as well as the commodity boom required to fulfill this growth. Similarly, the commodity-producing countries that supply these resources have a bright future ahead of them. Finally, as the economy continues to stabilize in the US, improving credit conditions will support corporate fixed income assets. At MMM, we believe that investment performance over the next few years will require a more creative approach to exploiting these areas, versus traditional approaches to investing heavily in US equities. As always, we will continue to monitor developments and attempt to identify the best areas for reward relative to risk.



Client Portfolio Review

Client portfolios rode the wave upwards in Q3/09, building off of large gains in the first half of 2009, and adding to year-to-date and since-inception outperformance relative to benchmarks. More importantly, clients have fully participated in the recent upswing by remaining committed to their long-term goals of savings and investment, rather than bailing out near the panicked-filled bottom like so many others did. We applaud our client's backbone through this bear market cycle, and they are beginning to be rewarded for this stiff upper lip. Clients that contributed new savings through the downturn are in some cases already above break-even, while others are approaching that near-term achievement.

Our models indicate that the worst is behind us for equity market investments, at least in the near-term. We have positioned portfolios more heavily in asset classes that appear to be in more predictable bull markets, as outlined in the "Market Recap" section. However, we have also reduced some risk in the portfolios by moving a portion of each client's portfolio into uncorrelated areas such as managed futures and currency trading, in the case that we are wrong and there is larger turbulence ahead. These uncorrelated areas are in many cases newly available investment options that were able to buck the past year's downward trend and actually rise modestly. Consequently, we are locking in some of the large rebound this year, while also improving portfolio diversification.

Continuous Improvement

Enhanced Client Investment Management System

In our last newsletter, we talked about the newest technology update at MMM, an implementation of our best-yet portfolio management and client experience tool called "IAS – Interactive Advisory Software." This new system will replace our previous one which was primarily focused on internal operations. While IAS will improve these internal functions, it will also provide a better client experience with enhanced reporting, sophisticated financial planning tools, and online secure vaults for storing private financial documents like estate plans, trust docs, wills, etc. Our teams have been working with IAS professionals to transition client accounts accurately, while maintaining the data feeds from all TD Ameritrade and separately held accounts (e.g. 401Ks, 529s, etc). This transition has been and will continue to be transparent to clients until we roll out the new functionality. Additionally, all your accounts with TD Ameritrade or through you employer / state plan will remain unchanged. We are currently two-thirds complete with the implementation, and aim to begin our client rollout towards the end of Q4/2009 and the beginning of 2010. We will reach out to you individually as the various tools become available in the coming year.

As always, we encourage you to pursue life's dreams as we manage, protect, and grow your wealth.

Warm Regards,

Raphael & Megan Martorello
Martorello Money Management, Inc.

QUESTIONS?

As always, we are available to discuss any questions you may have regarding our progress towards your financial and investment objectives.

REFERRALS?

We appreciate your referrals as they are the lifeline to our business. Please let your family, friends and colleagues know about our wealth management services.

Contact Us

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