

REVENUE ENHANCEMENT FOR PENSIONS FOUNDATIONS & ENDOWMENTS

DEMAND FOR MORE INCOME

Most liability-driven institutional investors are in a difficult position these days. Pension plans are faced with challenging regulatory and market conditions in the form of increased funding obligations.



Such changes are driven by actuarial calculations that integrate regulations, assumptions, historical investment returns and expectations and projections for future investment results.

In a similar way, mission-driven, long-term investors such as foundations, endowments, building funds and other tax-qualified investment accounts must align their assets (short and long-term) with their liabilities (minimum disbursement requirements, contractual commitments and program funding to fulfill their mission).

This is happening during a period of market volatility, economic upheaval and reduced fundraising and gifting.

SURVEY RESULTS

The nation's most-successful fundraising organizations anticipate that giving will decline this year by a median of 9 percent.

Half of the charities in the survey expect an even steeper drop.

The staff, trustees and managers of many asset pools are severely challenged.

PERFORMANCE ANXIETY

Whether funding a future retirement check for workers, providing tuition support for seminary students, delivering health care or meals for the homeless, smaller institutional investors generally underperform their larger peers.

There are three basic reasons for this underperformance:

1. THEY PAY TOO MUCH

Various data generated from academic and commercial research have consistently shown that smaller investors underperform larger investors in both risk taken and returns generated. One of the biggest factors is that they pay fees significantly and proportionately higher than paid by larger investors.

2. THEY TAKE TOO MUCH RISK (OR THE WRONG RISKS)

Many small and mid-market pension, foundation and endowment plans are served by vendors (insurance companies, banks, asset managers) that may not present the organization with a full or fair range of options.

Often the staff and board members of the organization try and build investment policies and then implement them on their own. Finally, brokers, advisors or consultants may support the organization with information, advice, etc. to invest and manage the portfolio.



Inappropriate investment and asset allocation policies are often the result. The risk/return equation can only be maximized if the investor is well-informed, well-equipped and well-served by its advisor.

3. THEY LACK ACCESS

Many small and mid-market institutional investors (and their advisors) are not aware of or able to access more sophisticated and easy to implement investment solutions. Enhanced strategies that produce increased incremental income, greater potential for growth and enhanced preservation or protection of principal are available with a little effort, expense and decision risk.

ONE EXAMPLE

A well-recognized and proven strategy for investors is a buy-write strategy that involves

the "overlay" of an option management program "on top" of an existing portfolio of equities such as the S&P 500 Index.



By selling (writing) options that allow the buyer to purchase the underlying securities at points well above the current market, the pension plan or foundation can realize an additional income stream from the options sold. Basically, they give up a portion of the portfolio's potential excess appreciation above a given, predetermined point.

THE BOTTOM LINE

Would you give up any excess return on your index portfolio (say beyond +25%) in the next 12 months) in return for an additional income of 2% (net of management fees) on the portfolio? Many institutional investors have found this strategy to be valuable in meeting their corporate retirement and mission-driven investment objectives.

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PARTICIPANT MATTERS by Marianna del Este



HISPANIC PARTICIPANTS

Two recent reports suggest that Hispanic workers in the United States are saving for retirement, but at rates that are below national averages. According to one report, only 41% of Hispanic workers are saving for retirement and only 25% are covered by employer-sponsored retirement plans.

"Hispanics face greater challenges in preparing for retirement than the average population, [but] with the right tools these obstacles can be overcome."

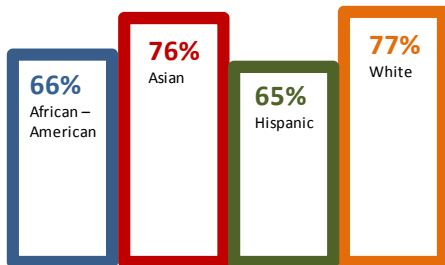
Gus West, The Hispanic Institute

The report is a joint effort of the Hispanic Institute and **Americans for a Secure Retirement**.

The issue is not limited to Hispanic workers alone. Another report from **Hewitt Associates and the Ariel Education Initiative** suggests that across 3 million participants in 57 companies, such workers are less likely than their Asian and white counterparts to participate in company 401(k) plans.

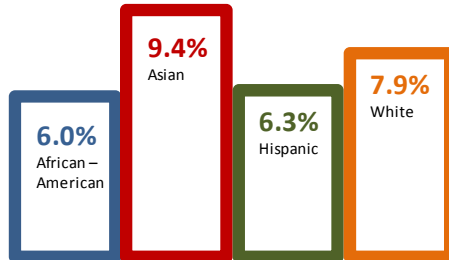
Further, the level of deferral by plan participants of varying ethnicity is also reflected in a range of behaviors that is likely to impact the retirement security of the savers.

PLAN PARTICIPATION RATES



The project collaborators strongly believe swift action needs to be taken to address the disparities and potential lack of retirement preparedness among many people of color.

PARTICIPANTS' SAVINGS RATES



The situation is likely to be further impacted by continuing changes in the makeup of our population and our workforce (see below).

NEED FOR CONTEXTUAL SERVICES

Hispanics are the fastest growing population in the U.S. By the year 2050, 30% of the U.S. population will be Hispanic.

PROJECTED US POPULATION BY RACE

(Numbers in thousands)

	2010	2020	2030	2040	2050	Percent
Total Population	320,233	341,387	373,504	405,655	439,010	100%
White	200,853	205,355	207,217	206,065	203,347	46.32%
Hispanic	49,726	66,365	85,931	108,223	132,792	30.25%
Black	37,985	41,847	45,461	48,780	51,949	11.83%
Asian	14,083	18,308	22,991	28,064	33,418	7.61%

*Numbers and percentages do not add up since numbers have been rounded.

As a group, Hispanics are younger than the population as a whole. There are also cultural as well as language differences that require a more comprehensive approach to education, communications and support for employees and participants.

Financial institutions and investment advisors appear to be responding to this need, but their efforts are often driven by product distribution objectives as much as a desire to inform, educate and equip employees.

How can plan sponsors and financial advisors increase participation? 1) Provide **tools and resources** that address language barriers and cultural issues; 2) Supply employees with **translated documents** in Spanish and/or videos for participants that have trouble reading; and 3) **Listen to them** - make it a conversation, not just a lecture.

Limited educational experiences and language skills can contribute to difficulty in comprehending translated documents and basic financial concepts that even native English speakers struggle with.

The result is often failure to participate in the plan or to not understand the investment process.

As far as sensitivity to culture, Hispanic immigrants have difficulty trusting financial institutions after losing money from corrupt governments and systems. They would rather keep "dinero debajo del cochon" (under their cushion).

It takes someone aware of these biases and backgrounds able to educate and convince the Hispanic population to have faith in the U.S. 401(k) retirement system.

401KLATINO has helped plan sponsors realize increased employee participation through culturally sensitive training and translated resources.



Participants receive documents in Spanish and often even translated quarterly financial reports and video training.

Each company's education is tailored to its workforce with special consideration to language and cultural barriers, financial acumen, age, and industry sector.

What do higher participation rates mean for you? Plans with high participation have a happier and more loyal workforce with less concern for compliance issues. Top-heavy compliance issues result in adverse tax consequences to the employer and employees, but can often be avoided with higher participation rates.

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BOOK CLUB CORNER by Ward Harris



THE PROBLEM

Research by two business professors suggests that the way individuals manage deadlines may impact to a large degree worker procrastination. It also suggests that the way managers set deadlines has a significant impact upon which of workers will procrastinate and the quality of their work.

Published in 2001 by **Dan Ariely**, of MIT's Sloan School of Management in Cambridge, Massachusetts, and **Klaus Wertenbroch**, of Insead in Fontainebleau, France, the results were based upon a series of experiments in which participants were asked to perform tasks under varying deadline scenarios.

ACADEMIC RESEARCH

In one experiment, three groups of people were asked to complete a complex proof-reading assignment. Group One was given a fixed deadline, while Group Two was given a series of interim, weekly deadlines for completing portions of the job.

Group Three set their own interim deadlines. Each worker was paid according to the number of errors they corrected and were penalized for missed deadlines.

RESULTS

The study's results reflected differences in the timeliness and the quality of the work performed by the three groups. The range of results were dramatic.

- **Group One** (the single, end-of-project deadline) produced work that was, on average, 12 days late, and they corrected an average of only 70 errors.
- **Group Two** (a series of interim deadlines) turned in the best results. Their work was only 0.5 days late on average, and they caught 136 errors.
- **Group Three** (set its own interim deadlines) fell in the middle: 6.5 days late, on average, with 104 errors caught. The authors experienced similar results from other experiments that they conducted.

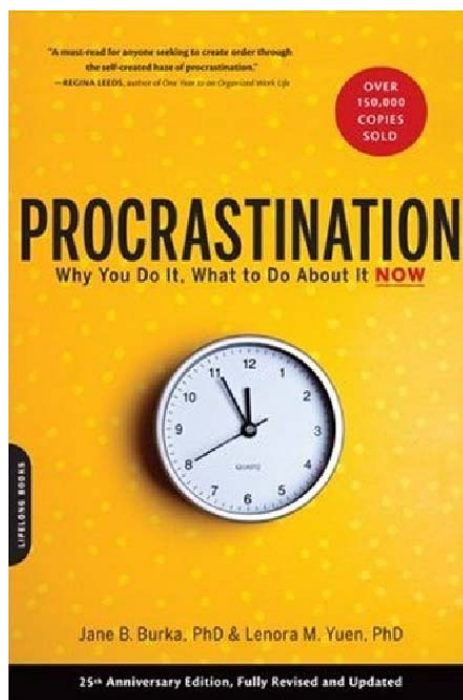
The take-away: If you want a job done right and done on time, set a series of incremental deadlines, not just one, for interim deliverables.

THE BOOK

Some real-world support for dealing with procrastination in the workplace may be found in a newly updated and reissued classic in the area of psychology and personal improvement.

PROCRASTINATION:

Why You Do It, What To Do About It NOW



This 322 page book was authored by **Jane B. Burka, PhD** and **Lenora M. Yuen, PhD**.

Originally published over 25 years ago, the current edition is fully revised and updated. The authors know of which they speak, as clinicians and having presented workshops on procrastination at UC Berkeley for almost thirty years.

In a succinct and understandable manner, the authors lay out the range of potential factors in an individual's development of deferral, delay and distraction behaviors.

What moralists might refer to as "sloth" is actually a complicated and potentially devastating set of conditions that can limit an individual's productivity and potential for achievement.

In a working environment, your associates with the most potential may be bound up in long-standing and poorly understood constraints.

To fully realize the value of that worker (peer or vendor), this book could be invaluable.

The book is comprised of two parts:

UNDERSTANDING THE CAUSE

The books authors, Burka and Yuen, provide an introduction to procrastination - by identifying the reasons we put off tasks in the first place.

We may put off tasks due to fears of failure, success, control, separation and attachment.

We may have unrealistic or skewed concepts of time, or we may have other physiological reasons such as depression, ADD and ADHD.

FINDING THE SOLUTION

In the second half of the book, the authors lay out a logical, easy to understand process to help procrastinators, their families and co-workers deal with this life-impacting habit.

The authors set reasonable expectations and provide specific, step-by-step instructions to change the behavior of the sufferer.

PROCRASTINATION is an easy and valuable read, well worth the time of anyone with personal or professional exposure to this complicated but manageable condition.



For more information about the book or its authors, visit their website at:

<http://procrastinationbook.info/>

Please let us know what you think of this book and its authors at the email address below.

MARKET COMMENTARY AS OF SEPTEMBER 30, 2009

STRATEGIC VISION

The third quarter has ended in what continues to be a most eventful year for the stock markets and the economy. It's also one year since the weekend that shook the foundations of Wall Street and of the global financial system – when Lehman Brothers collapsed, Merrill Lynch vanished as an independent entity and AIG was taken over by the U.S. government. In light of that, I believe it is important to briefly summarize where we've been this year, where we are today and the prospects for the period ahead – and to highlight some lessons from last year's financial collapse.

On Wall Street — where exuberance, irrational and otherwise, is usually an art form — there is a nagging fear that the market is again losing its footing. Despite signs that this downturn is easing, many Americans are more downbeat about the economy now than they were when the stock rally began. Unemployment is rising, home prices are falling, and many corporate earnings are still weak.

Economic indicators were mixed during the quarter. After rising for two consecutive months, U.S. retail sales fell by 1.1% in March and then by 0.4% in April, putting a damper on hopes that an increase in consumer spending would lead to a quicker recovery. Reversing this trend, the May retail sales figure registered a positive 0.5%, though much of the gain was attributed to non-discretionary spending. The numbers reflect that consumers will continue to face strong headwinds in the near term, as job losses continue and credit conditions tighten. This will place continued pressure on consumption through the second half of 2009.

Despite the market's surge during the second quarter, there are many who believe the market has rebounded too far, too fast. It will be critical to observe the progress of the government initiatives coming out of Washington as they continue through the implementation stage.

MARKET ANALYSIS

S&P SECTORS The Financials sector led the way for the second quarter in a row. This coincided with strong earnings announcements from larger financial firms such as JPMorgan Chase and Goldman Sachs. There was also strong quarterly performance in the Industrials and Materials sectors. The Materials sector, highly sensitive to changes in supply and demand which is reflected in the price of raw materials, has posted the largest year-to-date gain within the S&P at 35.86%. The only sector to remain in negative territory year-to-date is the Telecommunications Services.

FOREIGN EQUITY MARKETS Emerging markets posted double-digit returns as the MSCI Emerging Markets Index posted a gain of 21.04%, bringing the year-to-date return to 64.88%. Brazil, Taiwan and South Korea were among the top performing countries for the quarter. Brazil has now posted a year-to-date return in excess of 100%.

Developed markets also posted strong returns as the MSCI EAFE, a major benchmark for international equity, registered a 19.52% gain for the quarter, bringing the index's year-to-date return to 29.58%. Europe gained nearly 23%, while Japan lagged noticeably.

ECONOMY Signs of stabilization in the economy and financial markets were well received by investors during the third quarter. There were indications of a beginning to the end to the global recession. Investors were happy to hear positive news such as improvement in financial market conditions, increasing activity in the housing sector and an increase in household spending. However, there were also clear reminders that an economic recovery will be a slow, drawn-out process. Painfully visible on the economic landscape were the issues of ongoing job losses, slow income growth, lower home prices, and tight credit conditions.

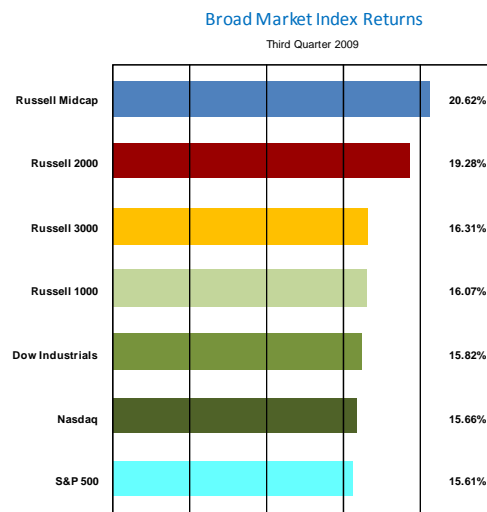
As we enter the fourth quarter, it is remarkable to consider everything that has transpired in only a year. The first three quarters of 2009 have witnessed unprecedented policy initiatives coming in the form of fiscal and monetary stimulus on a global scale. Financial conditions and economic activity could be described as "playing off" of one another as they have both provided reinforcement for each other. The state of the economy is better now than it has been over the course of the last year. Nevertheless, the sustainability of the recovery, given the "less negative" reports within the context of a global recovery, remains at the forefront of investor concerns.

WHAT TO DO? As a general rule, a certain level of healthy anxiety is positive – what gets investors in trouble is an excess of either optimism or pessimism. On a subjective basis, McHenry believes that over the next twelve months there is a **30% chance of a major market retreat**, a **20% chance of a broad market breakout** on the upside and a **50% chance of things ending up pretty much where we are now**. In other words, we are cautiously optimistic, but see significant risk to our economic recovery and its timing.

FINAL THOUGHTS

Despite the market's surge during the second quarter, there are many who believe the market has rebounded too far, too fast. It will be critical to observe the progress of the government initiatives coming out of Washington as they continue through the implementation stage.

For a more comprehensive version of this quarterly investment commentary, or to discuss these observations in the context of your investment plan, please call Rick Tasker at 800-882-7537.





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Rick Tasker, Ward Harris & Partners

WHAT

Investment Consultants & Advisors

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Be of Service, Learn & Grow Our Business

HOW

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WHERE

Western United States

WHEN

Corporate, Not-For-Profit or Private Investor Needs / A Special Interest in Health Care Organizations & Professionals

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This commentary summarizes prior financial market activity and uses data obtained from public sources. This commentary is provided to our clients as a resource for the management of assets and evaluation of investment portfolio performance. professionals.

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Benchmarking & Special Consulting Projects

Good decisions are usually based upon good data. Our consulting services are designed to help answer questions and create strategies.

We solve problems. We help clients assess their situation and how to deal with challenges and opportunities.

Advisory & Management Relationships

With a strategy in hand, we then assist clients in executing the strategy in order to realize the benefits of the effort. Our clients' return on investment is measured in the performance, cost and efficacy of the or-

HOW MCHENRY GOT ITS NAME By Ward Harris



WHO'S MCHENRY?

After thirteen years, we still get the question.

The simple story is that I was driving around Baltimore in 1997 with friend Gail Weiss, trying to think of a name for my new consulting firm. Gail suggested we take a tour of a national monument in her city. The rest was easy.

Fort McHenry is a star shaped fort best known for its role in the War of 1812 when it successfully defended Baltimore Harbor from an attack by the British navy in the Chesapeake Bay.

At the time of the battle, a garrison flag 30 feet by 42 feet in size flew from the fort. During the bombardment of the fort, Francis Scott Key was inspired to write "The Star-Spangled Banner," a poem that would eventually be set to the tune of a popular song from London, to become the national anthem of the United States in 1931.

The fort was named after James

McHenry, a Scots-Irish immigrant who became Secretary of War under President Washington.

The White House had been burned by marauding British troops on August 24, 1814 and Baltimore was their next target. Beginning at 6:00 A.M. on September 13, 1814, a large squadron of British warships continuously bombarded the fort for 25 hours.

Under the command of Major George Armistead, the fort's defenders only numbered around 1,000 men (and women), including regular army, militia and local citizen volunteers.

The British ships were unable to pass Fort McHenry and penetrate Baltimore Harbor because of defenses including a chain, sunken ships, and the American cannon. They were, however, able to come close enough to fire rockets and mortars on the fort. Due to the poor accuracy of the British weapons and the limited range of the American guns, little damage was

done on either side, but the British ceased their attack on the morning of September 14, 1814, and the naval part of the British invasion of Baltimore had been repulsed. The Americans did suffer casualties, amounting to four killed and twenty-four wounded, including William Williams, an African American soldier, and a woman who was felled by a bomb as she carried supplies to the troops.

At one point during the bombardment a bomb crashed through the fort's powder magazine. Fortunately for the defenders, either the fuse was extinguished by the rain or the bomb was merely a dud.

So why McHenry? Well, if a small group of our ancestors could repulse the largest military organization in the world, perhaps we could do some good as a small professional service firm with a mission. For more information about our namesake, Google has many excellent educational links.