

## INVESTMENT RESULTS

U.S. stocks (S&P 500) gained 15.6% during the quarter and 56.7% since the low on March 9th of this year. International stocks (EAFE) gained 19.5% during the quarter and 71.6% since the bottom. The TCI Balanced Portfolio (a good proxy for most TCI portfolios) gained 9.8% during the quarter and approximately 34% since the market bottom.

For 2009, year-to-date U.S. stocks are up 19.3% and international stocks are up 29.0%. The TCI Balanced Portfolio is up 17.4% compared to the Wall Street Portfolio (50% US stocks, 10% international stocks, 30% US bonds and 10% Treasury Bills) gain of 14.9%.

## THE NEW NORMAL

Mohamed El Erian of PIMCo has labeled his outlook for the secular economic environment he expects for the foreseeable future as the "New Normal". The "old" normal has been in place for the last 20 to 25 years and been characterized by:

- Declining interest rates (since 1982)
- Low rates of inflation (since the late 1970's)
- Accelerating use of leverage
- Financial innovation
- Loose regulation

In the wake of the dual housing and financial market bubbles bursting, business, investors and governments agree that substantial risk must be removed from the system. This de-risking is resulting in systematic deleveraging, reregulation, and a mild reversal of globalization. All of this will result in slower growth in the future.

Today most of the focus is on the shorter term, and many advisors expect a strong economic recovery. These forecasts are in line with what could have been expected during the old normal, where the basic idea has been the deeper the recession the stronger the recovery. PIMCo does not expect this to happen, for several reasons.

First, the explosive growth in the housing market will not return. Subprime loans and the belief that everyone in U.S. should be a homeowner are gone. Employment associated with housing such as construction and finance will be structurally reduced. Second, very low and even negative savings rates fueled high levels of consumption in the old normal. The rate is now above 5%, and increased savings mean reduced consumption. Third, exporting countries were willing to accept virtually unlimited amounts of U.S. paper (from Treasuries to subprime loans) for their manufactured goods. These exporters need to transition from dependence on the U.S. to demand from their own population. This process is in the early stages and will take time.

PIMCo comes to three conclusions which we find very reasonable. First, the "sugar high" that the markets are now experiencing is not sustainable. Second, many observers are evaluating the economy in an outdated, backward-looking context. Finally, the New Normal demands forward looking analysis that recognizes the secular structural changes in the global economy.

Thanks to PIMCo for this very thoughtful and helpful analysis!

## VALUATIONS REVERT TO THE MEAN

As the table shows, stock valuations using reversion-to-the-mean analysis have seen two extremes in less than two years. First, the market peaked in October of 2007 with valuations for all stock

categories significantly overvalued compared to equilibrium (normal). Second, at the end of February this year, stocks became significantly undervalued. The most recent figures we have as of the end of August show both overvalued and undervalued categories. These calculations carry significant importance in our asset allocation decision making.

## EXPECTED RETURNS FOR NEXT 7 YEARS

	10/1/07	2/28/09	8/31/09	Equilibrium
US Large Cap Stocks	0.7%	11.4%	5.3%	8.2%
US Small Cap Stocks	0.0%	11.4%	4.9%	8.7%
US High Quality Stocks	4.7%	15.2%	12.5%	8.2%
International Large Cap Stocks	2.3%	13.2%	8.5%	8.2%
International Small Cap Stocks	0.5%	15.2%	8.9%	8.7%
Emerging Market Stocks	0.5%	15.2%	8.9%	9.0%

For example, we recently added the Columbia Acorn International Fund to all asset allocation portfolios. This small-to-mid capitalization international fund adds to TCI's focus on international investments, which have superior valuation and excellent competitive position compared to the U.S.

## CONCLUSION

This past winter when the outlook was dismal, TCI did not recommend selling everything and heading for the hills. Today, with the outlook improved and many advisors very bullish, TCI does not recommend taking on significant additional risk. Our best advice for you is to have a sensible investment plan based on your individual circumstances and stick to it.

## JOIN US IN WELCOMING THESE NEW PROFESSIONALS TO TCI!

### ERICKA BROADEN

Ericka Broaden joined TCI's Employee Benefits Team as Employee Benefits Associate. She has over 18 years experience in recordkeeping and employee benefits management. Ms. Broaden graduated from DeVry University in 2006 with a BA in human resources management. Before joining TCI, she managed 403(b) plans for public school systems. Prior to that, she was a Recordkeeping and Production Manager at ABN AMRO in Chicago where she managed 401(k), ESOP and Money Purchase Plans.

### JOHN DUCKWORTH

Mr. Duckworth joined Trust Company of Illinois as a Wealth Management Advisor. He graduated from the University of Kansas in 2001 with a degree in accounting and business administration. After working as a business analyst in the private sector, he returned to school and earned a master's degree in Organizational Communication from Purdue University in 2006. Since then, he has worked in the financial planning industry helping families meet their financial goals. He is a candidate for the CFP Board's certification.

**Questions? Comments? Call us at 630.545.2200.**

## RETURNS THROUGH SEPTEMBER 30, 2009

SYMBOL	NAME	3-MONTHS	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
<b><u>Large Capitalization Stocks</u></b>							
DODGX	Dodge & Cox Stock	19.9%	25.6%	-3.7%	-8.8%	0.8%	6.0%
FINSX	Fidelity Advisor New Insights	13.7%	20.5%	-4.4%	-1.2%	5.8%	---
CPAIX	Federated Capital Appreciation Instl	9.9%	9.6%	-10.1%	-2.1%	2.1%	2.4%
VPMAX	Vanguard Primecap Admiral	14.7%	23.8%	-3.9%	-0.8%	4.7%	4.4%
<b><u>Small/Medium Capitalization Stocks</u></b>							
GSMCX	Goldman Sachs Mid-Cap Value	19.6%	25.9%	-4.0%	-3.6%	4.1%	9.6%
MSSGX	Morgan Stanley Instl Small Company	18.8%	42.5%	9.6%	-1.7%	4.2%	5.9%
<b><u>Long/Short Stocks</u></b>							
COAGX	Caldwell Orkin Market Opportunity	-2.4%	1.2%	3.1%	10.6%	6.1%	4.1%
HSGFX	Hussman Strategic Growth	-0.2%	6.1%	-7.7%	0.3%	2.7%	---
<b><u>International Stocks</u></b>							
ACINX	Columbia Acorn International	19.3%	44.7%	12.6%	1.7%	11.9%	8.0%
GMCEX	GMO Emerging Countries III	23.1%	57.6%	8.2%	4.5%	15.4%	13.7%
MSIQX	Morgan Stanley Instl International	15.7%	19.0%	1.8%	-1.9%	5.6%	6.2%
TFEQX	Templeton Instl Foreign	21.3%	31.8%	5.2%	0.3%	8.9%	6.6%
<b><u>Hedged Funds</u></b>							
PAUIX	PIMCo All Asset All Authority Fund	7.4%	18.0%	14.1%	7.2%	7.0%	---
<b><u>Alternatives</u></b>							
GRSIX	Cohen & Steers Instl Global Realty	26.6%	33.0%	-6.9%	-8.4%	---	---
PCRIX	PIMCo Commodity Real Return Strategy	9.4%	25.3%	-19.4%	-3.4%	0.0%	---
RYMFX	Rydex Managed Futures Strategy	1.7%	-2.4%	5.6%	---	---	---
<b><u>Taxable Bonds</u></b>							
PTTRX	PIMCo Total Return Fund	6.0%	12.7%	18.3%	9.2%	6.9%	7.6%
<b><u>Tax Free Bonds</u></b>							
VWIUX	Vanguard Admiral Intermediate Tax Exempt	6.2%	11.3%	13.2%	5.2%	4.4%	5.1%
<b><u>Money Market Investments</u></b>							
FPOXX	Financial Square Prime Obligations	0.1%	0.3%	0.8%	3.2%	3.4%	3.2%
<b><u>Asset Allocation Portfolios*</u></b>							
	Conservative (Started 8/31/98)	8.3%	15.5%	6.7%	3.5%	5.6%	6.4%
	Balanced (Started 6/30/93)	9.8%	17.4%	5.0%	2.7%	6.0%	6.4%
	Aggressive (Started 8/31/98)	10.7%	19.5%	1.2%	0.0%	4.9%	5.7%
	All Equity (Started 8/31/98)	11.4%	21.3%	-2.9%	-2.5%	4.5%	4.9%
<b><u>Indices for Comparison</u></b>							
	Wall Street Index	10.9%	14.9%	0.0%	-0.7%	3.3%	2.8%
	S&P 500 Large Cap Stocks	15.6%	19.3%	-6.9%	-5.4%	1.0%	-0.2%
	Russell 2000 Small Cap Stocks	19.3%	22.4%	-9.6%	-4.6%	2.4%	4.9%
	MSCI EAFE International Stocks	19.5%	29.0%	3.2%	-3.6%	6.1%	2.5%
	BarCap US Aggregate Bonds	3.7%	5.7%	10.6%	6.4%	5.1%	6.3%

\*Returns before TCI fees.