ASPIRIANT

Insight

Wealth Management Commentary

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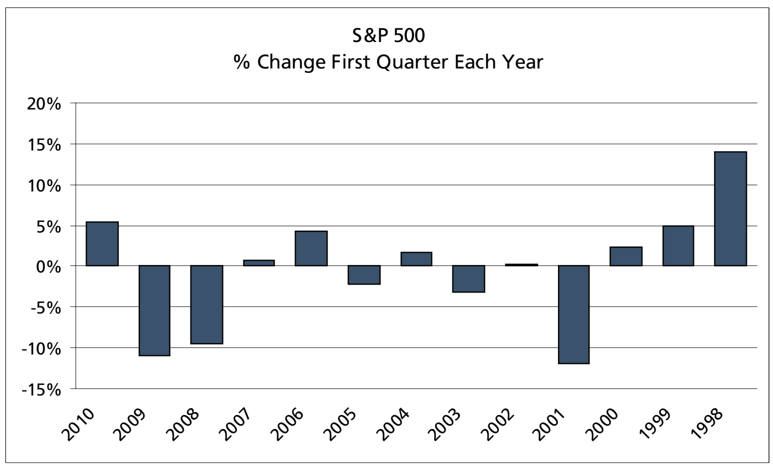
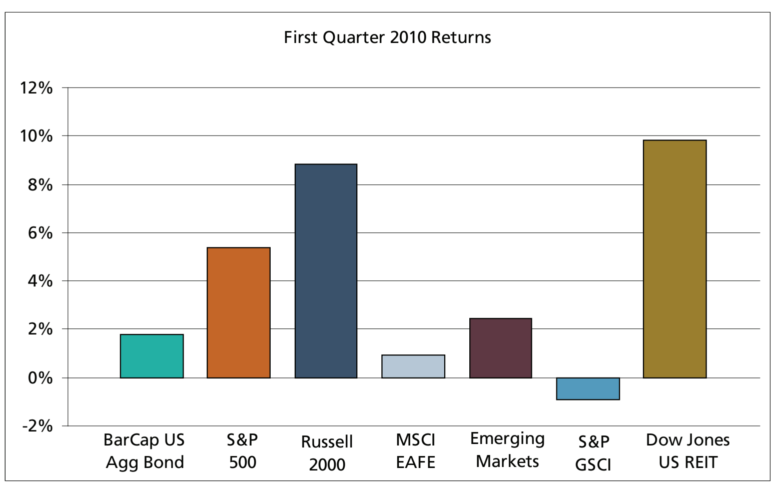
The Pendulum Begins to Swing Back…

In the first quarter of 2010, the US stock market had its best start in more than a decade, extending the market rally that began in March 2009. With the exception of commodities, all asset classes in Aspiriant managed portfolios had positive returns for the quarter.



Source: Zephyr StyleAdvisor



Source: Zephyr StyleAdvisor

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Despite the very positive end result, the "experience" of the first quarter included noticeable periods of discomfort as volatility spiked on mixed news: Greece's budget/debt crisis and concern about the cost of the controversial health care legislation, followed by stronger corporate profits, improving employment figures, and the continued promise of low interest rates for an "extended period." The volatility was especially sharp to the downside following the news of Greece's budget crisis as the S&P 500 lost over 8% of its value in just thirteen trading days. The visceral market response to this event brought back memories of October, 2008, and reminded investors how quickly things can change.

And while the recent volatility may still feel out of the ordinary, like a small after-shock of a major earthquake, the truth is volatility is the norm in capital markets. In fact, going all the way back to 1900, the US equity market (as measured by the DJIA) has been in a correction, bear market or a recession approximately 46% of the time. Even in the best of years, the market has experienced material intra-year retrenchments.

If anything, we might experience more volatility as we move through 2010 and the global economy continues to work through structural imbalances including high unemployment, strained government finances, the potential impact of interest rate hikes, and perhaps most concerning, the eventual exit from global stimulus programs.

Happily, it is becoming evident that the "green shoots" of last summer are beginning to sprout all over the economic landscape this spring, a sign the pendulum of economic growth and recovery is beginning to swing back in a positive direction. There is more optimism than pessimism and the fear of a "double dip" recession has subsided.

The first quarter of 2010 marked the one year anniversary of the market trough, and a comparative look at some key measures of economic activity sheds some light on the reasons for the market's optimism:

	Q1 2009	Q1 2010
S&P 500	797.9	1,169.4
GDP – quarterly % change	-6.4%	3.5% (est.)
Jobs for Quarter - quarterly change	-1.9M	106K
Consumer Confidence – level	26.0	52.5
Unemployment Rate	8.6%	9.7%

Source: Zephyr StyleAdvisor, Bureau of Economic Analysis, Bureau of Labor & Statistics, Wall Street Journal

As the world economy continues to gain momentum, our clients' portfolios are well positioned to participate in profitable streams of economic activity up and down the value chain – from raw materials to products and services. While we can't do anything to control the predictable sources of market volatility that lie ahead, we are working on ways to limit the impact of that volatility on client portfolios to improve the "experience" and soften the ride for clients so they can focus on the things that really matter in their lives.

The articles in this quarter's *Insight* provide additional perspectives on several issues of the day. Our Chief Investment Officer, Jason Thomas, writes about the highly visible issue of China's currency management and describes the currency exposure in our clients' portfolios. This *Insight* also includes a legislative update on the estate tax repeal, some perspective on REITs' roller coaster performance, a conversation about Cyber Security, and comments on the tax impacts of health care reform.

Rob Francais,
Interim Editor

Changes to Clients' Quarterly Performance Report

We are currently investigating new approaches and formats for providing clients with meaningful performance information on their portfolios. In the meantime, we have decided to make a few minor changes to the first quarter reports, as follows:

- Remove the 6.5% generalized financial planning return from the Cumulative Portfolio Performance. This single return estimate has become less meaningful for many clients whose investment strategies and asset allocations differ markedly from the portfolio mixes approximating the 6.5% return. We remain committed to helping clients connect their investment strategy to their own unique financial circumstances. For now, we think the best way to do that is in our individual client meetings.
- Change the time periods displayed on the Performance Results table to the most recent quarter, 12 months, 5 years annualized, and 10 years annualized to provide a longer term perspective. Many of our managers employ low cost, tax-efficient, systematically active strategies that are designed to produce superior long-term results relative to approximate benchmarks.
- Similarly, we are no longer highlighting manager performance equal to or better than the benchmark on the Performance Results pages because we think there is too much noise in short-term results over a quarter or year.

The Currency of the Times

A year ago almost every economy in the world was in trouble. In the developed economies, output plunged while in China and some other emerging economies, growth merely slowed sharply. The slump was synchronized and severe.

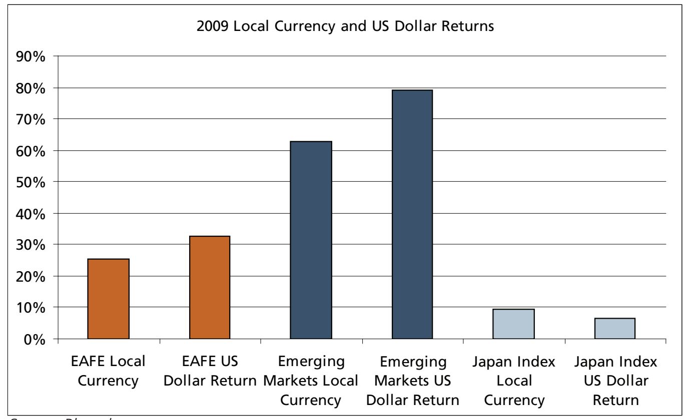
However, the opposite seems true of the recovery. China's rebound began earliest and has been the most spectacular. The US economy began growing in the middle of 2009 and accelerated sharply in the final months of the year. News from the euro zone and Japan is rather gloomier. Germany emerged from recession before the US, but growth fell back to zero in the fourth quarter. The Japanese recovery also seems to be fading.

This diversity has caused big moves in the currency markets. The market's confidence in a currency reflects both an appraisal of a country's fiscal and monetary policies and its prospects for economic growth, so shifting growth patterns can have big consequences for asset prices and exchange rates. And those exchange rates have an important effect on the competitiveness of a country's exports and the costliness of its imports (part of an overall inflation calculation).

Aspiriant's investment team monitors these currency relationships in order to reconfirm our current (unhedged) approach to currency exposure and to identify direct currency strategies which may be profitable. The following sections describe the current currency exposure in client's portfolios and offer some thoughts on the flap over manipulation of the Chinese currency.

Currency exposure in clients' portfolios

Aspiriant-managed portfolios have a currency component as part of their foreign investments; consequently exchange rate movements have an important impact on our clients' investment returns. Conceptually, when a U.S. investor buys a foreign investment, the investor exchanges dollars for the foreign currency; the foreign currency is then used to buy the investment. At the end of the investment period, the U.S. investor sells the foreign investment and receives foreign currency, which is then exchanged for dollars. If the foreign currency has appreciated, it will purchase more dollars than it did at the beginning, thus adding to the return, and making the US dollar return greater than the "local currency" return. Conversely, if the foreign currency has depreciated, it buys fewer dollars and the local foreign currency return is lower than the US dollar return. The graph below illustrates this dynamic with the 2009 local currency and US dollar returns for two broad international equity indices, and a Japan equity index.



Source: Bloomberg

During 2009, many major currencies appreciated against the dollar. The appreciation was most marked for the Australian dollar and New Zealand dollar, which strengthened by 42% and 41%, respectively. The UK pound sterling also appreciated against the dollar last year, though it has fallen 7% in the first quarter of 2010. Several other developed market currencies, like the Swiss franc and the euro, have also fallen against the dollar since the end of last year. Emerging market currencies such as the Russian ruble, the Indian rupee and the Polish zloty have all appreciated against the dollar over the same period.

What should a long-term investor make of all this currency movement? We have made the intentional decision not to hedge the currency exposure in Aspiriant client portfolios for several reasons: hedging is not free, we value the additional diversification away from the dollar, and we think that, on balance, currencies in the rest of the world will likely strengthen relative to the dollar over the next 20 years. To be sure, there will be periods when the dollar strengthens against the major currencies, but we don't expect that to be the dominant trend. As a result, those portions of our clients' equity portfolios that are invested in foreign equity markets are also exposed to exchange rate movements. Generally, we think that exposure will be beneficial; consequently, we plan to stick with our decision not to hedge currency in client equity portfolios.

Having said that, the economic scenarios which result in good equity market returns are not always consistent with a strengthening currency; in certain environments it might make sense to engage in specific currency investments. The Aspiriant investment team is therefore evaluating ways to separate the currency exposure from the underlying capital market assets, in order to increase exposure to currencies with characteristics (such as high interest rates) which have, in the past, preceded strong currency returns.

Is China a Currency Manipulator?

Over the past year, currency relationships have exacerbated tensions between the major global economies, especially the US and China. Nobel prize-winning economist (and currency expert) Paul Krugman estimates that China's undervalued currency, the yuan, is costing America roughly 1.4 million jobs. Its cheap currency gives its exporters a pricing edge selling into the American marketplace. Because of its high savings rate and state ownership of businesses, these dollar earnings are invested in US securities rather than being spent on US goods. For many years, these asset purchases resulted in lower interest rates, and helped enable higher US borrowing and spending rates. In fact, many economists point to this dynamic as part of the reason for the bubble in US mortgage securities.

But today, interest rates in the US are as low as they can go. So by saving dollars rather than spending them, the Chinese are draining demand from the world economy. China's foreign-exchange reserves now total $2.4 trillion, of which about 70% are thought to be in dollar-denominated investments.

In mid-March, 130 members of Congress signed a letter to Timothy Geithner, the US Treasury Secretary, calling for a surcharge on imports from China. The tariff is intended to force China to strengthen its currency, which is pegged to the dollar. This proposed tariff is similar to the Nixon Administration's 1971 surcharge that prompted America's trading partners to renegotiate their exchange rates four months later.

The main difference is that, in 1971, the currency markets were locked into a system of fixed relationships. By pegging to the dollar, a currency was automatically fixed to everything else. China currently pegs the yuan to the US dollar while allowing it to float in value against the currencies of its trading partners and competitors. Relative to a basket of currencies weighted by the amount of trade with China, the yuan's value is back to where it was when the financial crisis started. In fact, according to a measure (the "third-country" effective exchange rate) calculated by the Hong Kong Monetary Authority, the yuan is about 12% more expensive today than it was before the collapse of Lehman Brothers, relative to China's emerging market competitors in its big export markets. By this indicator the value of China's currency is about 25% above its 2005 level. So the evidence is mixed – while many economists feel that the yuan is too cheap relative to the US dollar, it has appreciated relative to a number of other currencies.

The second difference is related to the first: because all major currencies were pegged to the dollar in 1971, everybody had to pay the surcharge. Nixon dismayed everyone but discriminated against no one. China's critics today, on the other hand, urge the Obama administration to impose tariffs on Chinese goods alone. They argue that doing so would reduce the demand for Chinese imports, which constitute about 15% of the US total. But there is no guarantee that US consumers would switch from Chinese goods to those made in the US. If US consumers bought from producers elsewhere in the world, or China relocated production, a US surcharge would change the composition of the trade deficit without necessarily changing its size. So the effect of a tariff is far from certain.

And while China is the most prominent currency market manipulator, it is not the only one. Even countries whose currencies have appreciated, such as Switzerland and Japan, have intervened to stop further strengthening of their currencies while the stigma associated with a weak currency seems to be gone completely. Given the desperate scramble for growth that has followed the credit crunch and the global recession, the interests of exporters seem to be paramount.

To some, the lesson of all this is clear. If all the issuers of paper money want to see their currencies depreciate, then the only answer is to own an asset that central banks cannot debase — gold. Part of the rise of the price of gold, to more than $1,100 an ounce this year, must be attributed to the conviction that governments will try to inflate away their debts by allowing rapid growth in the money supply resulting in a weakening of their currencies.

Currency debasement is a long-term concern. Over the next couple of years, it is hard to see how sustained rises in inflation will be generated given the amount of spare capacity in the global economy. We argued as much in last quarter's *Insight*. And given the generally short average maturity of government debt around the world (less than five years in the US), a deliberate strategy of higher inflation would be met with an offsetting increase in the yield demanded by the market. So while gold is a small part of most Aspiriant client portfolios, we do not think it appropriate to overweight gold given its lack of yield.

Dr. Jason Thomas, PhD

Impact of Health Care Reform Law

In our last *Insight*, we provided some thoughts on income tax rates that seem likely to prevail starting in 2011, and commented on the direction of possible surcharges Congress was considering to help pay for health care reform. Well, the health care part is a little clearer now as the Patient Protection and Affordable Care Act was signed into law on March 23, 2010. The following is a brief summary—in order of the effective date—of some of the resulting *tax law* changes likely to impact a majority of our clients:

Effective 1/1/2011

- The penalty tax on distributions from a Health Savings Account (HSA) or an Archer Medical Savings Account (MSA) that are *not* used for qualified medical expenses increases to 20% of the disbursed amount. The current tax is 10% for HSAs and 15% for Archer MSAs.

Effective 1/1/2013

- The floor for itemized deduction for unreimbursed medical expenses increases from 7.5% of Adjusted Gross Income (AGI) to 10% of AGI for regular tax purposes. The increased floor is waived for individuals age 65 and older for the tax years 2013 through 2016. The Act does not change the 10% of AGI threshold that applies under the alternative minimum tax (AMT).
- The Medicare Part A (hospital insurance) tax on self employed income and wages increases by .9% (from 1.45% to 2.35%) on earnings over $200,000 for individual tax payers and $250,000 for married couples filing jointly. These thresholds are not indexed for inflation.
- A new 3.8% tax—the so-called Medicare contribution—is imposed on certain unearned income (interest, dividends, capital gains, annuities, rents, and royalties) for taxpayers with AGI over $200,000 for individual and $250,000 for married couples filing jointly. These thresholds are not indexed for inflation.
- Contributions to a flexible spending account for medical expenses are limited to $2,500 per year, indexed for inflation.

Effective 1/1/2014

- Individuals without qualifying health care coverage will be subject to a penalty tax phased in from 2014 to 2016. In 2014, the tax is the greater of $95 ($325 for 2015, $695 for 2016) annually per person or 1.0% (2.0% for 2015 and 2.5% for 2016) of income. The penalty for minor dependents is half the adult amount, and a family's total penalty is generally capped at three times the adult amount for that year.

These new taxes are primarily directed at higher income taxpayers, and as noted in our last *Insight*, are likely the first step toward a new reality where taxpayers in the top two brackets face a future with higher tax rates on ordinary income, long-term capital gains, and qualified dividends. In particular, the Medicare contribution tax is a significant change in tax policy: for the first time ever, tax revenues from investment income are being used to finance Medicare. The table below shows the impact on marginal tax rates applied to

Portfolio Income Tax Rates: Worst Case (Current Law)
2010 vs. 2013 with Medicare Contribution Tax

Highest Federal Marginal Tax Rate [1]

	Interest, Non-Qualified Dividends, & ST Capital Gains		Qualified Dividends		LT Capital Gains	
	2010	2013	2010	2013	2010	2013
Regular Tax	35.00%	**43.40%**	15.00%	**43.40%**	15.00%	**23.80%**
AMT	28.00%	31.80%	15.00%	31.80%	15.00%	23.80%

[1] 2013 rates assume the Bush tax cuts lapse at the end of 2010.

Highest Federal + CA Marginal Tax Rate [2]

	Interest, Non-Qualified Dividends, & ST Capital Gains		Qualified Dividends		LT Capital Gains	
	2010	2013	2010	2013	2010	2013
Regular Tax	41.21%	**49.02%**	21.21%	**49.02%**	21.21%	**29.42%**
Fed AMT, CA Regular Tax	37.55%	41.35%	24.55%	41.35%	24.55%	33.10%

[2] Excludes the CA 1% Mental Health Services Tax Rate for taxable income over $1M.

investment income for top bracket taxpayers starting in 2012.

Meanwhile, because the Medicare Part A tax and the Medicare contribution tax on unearned income don't begin until 2013 there is ample time to plan for them. But two of the strategies we mentioned in last quarter's *Insight* will become more attractive when these taxes go into effect…if not sooner:

- The Medicare contribution tax does not apply to municipal bond interest so the contribution tax provides further incentive to reposition fixed income investments towards municipal bonds.
- Rising marginal income tax rates on investment income make tax-management more important.

Kacy Gott

Taking Stock: REITS

For years, real estate investment trusts ("REITS") rewarded investors with consistent dividends (averaging 5-7%), relatively low volatility and low correlation to other asset classes. Starting in 2008, however, the experience of the REIT investor changed significantly.

From its inception in 1990 until the end of 2007, the Dow Jones All REIT index moved more than 5% in a single day only three times. Yet, in the seven months from September 2008 to March 2009, value changes of that magnitude occurred a staggering 64 times, and REIT values plummeted over 70% from their 2007 peak. But over the last year, REIT values have more than doubled, and volatility has declined, though it remains elevated relative to historical levels. In addition, the average dividend of US REITs, at approximately 4%, is still well below the long-term average.

These dramatic changes in the REIT market over the past two years raise the question of whether there has been a permanent change in the investment characteristics of REITs. In particular, can we expect REITs to provide the benefits of portfolio diversification and yield as they had prior to the last couple of years?

One view is that, at the end of 2008 when the credit crisis was peaking, the outlook for commercial real estate was darkening by the day, and as values started to free fall, investors actually began to question the fundamental viability of the REIT business model itself. But in a stunning turnaround, global REITs successfully raised over $55 billion in debt and equity in 2009, substantially de-levering their balance sheets and quieting critics. Further, through these capital infusions many REITs were able to develop substantial cash "war chests," putting them in an enviable position to acquire distressed assets at attractive prices. REITs appear to have demonstrated their staying power while making the case that their access to inexpensive capital…in a credit constrained environment…gives them a distinct advantage over private real estate investors. Although dividend yields are currently low on an absolute basis, they are reasonably attractive relative to current fixed income yields and REIT dividend yields are likely to increase as REITs make accretive acquisitions in the near term, and over the longer term, grow net operating income as the economic recovery improves fundamentals.

Others argue, however, that in the future, REIT performance is likely to become more highly correlated with other asset classes and dividend yields will remain low due to structural and technical changes. The rise of REIT-focused Exchange Traded Funds ("ETFs") has created a surge in trading activity, while the investor base of REITs has evolved from primarily individuals to primarily institutions. In response, REIT management teams may shift their emphasis from generating dividends to capital appreciation to reflect the interests of their new ownership base.

Although we see some merit in both perspectives, we believe the investment case for REITs over the medium term remains compelling even if volatility remains above average. As noted earlier, REITs' access to the public capital markets should give them a competitive edge going forward to make accretive acquisitions. In addition, investing in a **global** REIT portfolio, as Aspiriant generally recommends, provides geographical and currency diversification, which should be enhanced as more countries adopt the REIT structure to encourage more transparency and liquidity in their national real estate investment markets. Further, history indicates that a real estate recovery typically lags economic growth. Once global economic fundamentals improve, which we expect to occur first in Asia and Latin America, then the United States, and finally Europe, dividend growth is likely to resume as well.

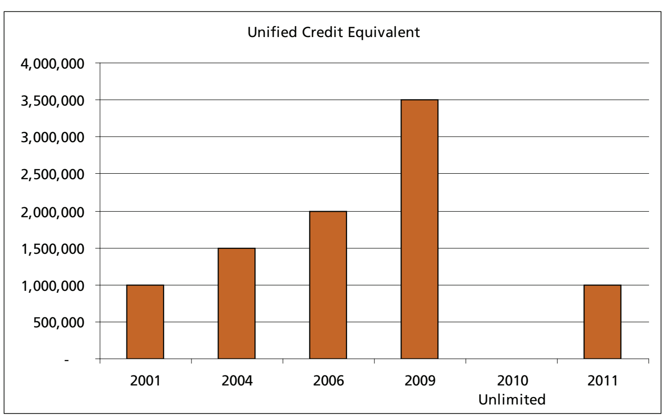
The Aspiriant investment strategy team believes REITs remain an important part of a well-designed portfolio, providing diversification, an inflation hedge, and exposure to domestic and international real estate markets. As such, we have maintained global public real estate exposure generally constant across client portfolios.

Lauren Pressman

Estate Tax "Repeal" in 2010: A Wolf in Sheep's Clothing?

To illustrate the bizarre nature of the current estate tax, consider a hypothetical couple, John and Mary Smith. John and Mary are in their early 80s and have amassed a $14,000,000 estate, primarily appreciated stocks, over their lifetime. They have strong charitable intent and have decided to divide their estate 50/50 between charity and their three children upon the surviving spouse's death. After hearing about changes to the estate tax laws for years, they looked forward to the year 2010 when the estate tax would finally be repealed, possibly for good. However, now that 2010 is here, they are dismayed to learn that "estate tax repeal" for them is transitory, results in higher taxes, unnecessary legal costs, and increased uncertainty. Surely this is not the state of affairs that they, and many others, expected.

With the health care bill signed into law, Congress may finally be able to turn some of its attention to other legislative priorities, including reform of the on-again, off-again federal estate tax system. Before contemplating the future, let's retrace the path of the rules put into place by the current law. Congress passed the Economic Growth and Tax Relief Reconciliation Act ("EGTRRA") legislation in 2001. As shown below, EGTRRA gradually increased the "unified credit equivalent" - the amount a person can bequeath estate tax-free.



However, EGTRRA retained the $1,000,000 unified credit for *gift tax* purposes so one must die to take full advantage of the unified credit increase. On top of that, the entire EGTRRA law expires at the end of this calendar year and the unified credit then returns to its 2001 level of $1,000,000. Lastly, the estate tax rate, which was 45% in 2009, returns to 55% in 2011.

For John and Mary, the estate tax changes from 2009 to 2010 would not reduce their estate tax bill. Under the rules in effect last year, had they both died in 2009, they could have transferred up to $7,000,000 (each had a $3.5 million exemption) to their children without tax. However, if John and Mary survive until 2011, they are faced with the prospect of paying more than $2,000,000 in estate tax on the same bequests to their children. Several bills have been introduced in Congress to prevent the unified credit from returning to $1,000,000, but you can be forgiven if you have lost confidence in Congress' ability to pass any permanent estate tax legislation. Indeed, some members of Congress are against legislative change because they favor a return to 2001 rules, a $1,000,000 unified credit, and a 55% estate tax rate.

Where's My Basis Step-up?

A lesser discussed part of the EGTRRA legislation that carries significant costs for many taxpayers is the elimination of the unlimited step-up in tax basis at death, effective January 1, 2010. Under long-standing step-up rules, the tax basis of appreciated property is increased to the date of death fair market value used in calculating the estate tax. This step-up permits heirs (including a spouse) to sell the inherited property without the imposition of a capital gain tax on the pre-death appreciation. Under the rules in effect for a death in 2010, only $1,300,000 in gain can be "stepped-up" tax-free. An additional $3,000,000 in gain may be eliminated by basis step-up on transfers between spouses. However, most traditional husband/wife estate plans do not qualify for the additional $3,000,000 step-up without a change to their plan. For all other assets, the heirs must determine the decedent's basis in the assets (typically the price the decedent paid for them), which will often be time consuming, expensive, and sometimes impossible. Without any evidence to the contrary, the tax basis on inherited property could be presumed to be zero, leaving 100% of the proceeds on the later sale of such property subject to capital gains tax.

Under the rules in effect for 2010, John and Mary will not be able to step-up the basis in **all** their assets if one of them were to pass away in 2010 - despite not getting any benefit of the estate tax repeal. If the survivor later sells their assets, he or she will incur income tax to the extent the assets sold had more than $1,300,000 in gain. To take advantage of the increased $3,000,000 spousal basis step-up, John and Mary will have to incur legal costs to amend their current estate plan to include a "2010 Patch" that reallocates assets upon a death in 2010. This 2010 Patch should not have a material impact on the estate plan, but could save millions in income tax. However, underscoring the fleeting nature of the current situation, this amendment is only necessary if either John or Mary pass away in 2010 since the step-up in basis rules are fully restored in 2011 when the EGTRRA law expires. Therefore, for younger clients in good health or clients with less than $1,300,000 in gain, incurring the legal expense to amend their estate plan may not be advisable.

Uncertainty Reigns

Another problem with the current estate tax system is the continued uncertainty – which is never a useful attribute of a taxation system. In December of 2009, knowing that no legislation could be passed until 2010, some members of Congress threatened to reinstate the 2009 rules and make them retroactive for anyone who dies in 2010. Until that "retroactivity" issue is resolved, the heirs of taxpayers who pass away in 2010 face a conundrum. If the decedent would have owed an estate tax under the 2009 rules, the heirs will be unsure whether the estate owes estate tax or whether the assets are entitled to a step-up in basis. For example, if someone passed away on January 5, 2010 with an estate of over $50,000,000, an estate tax of over $22,000,000 would be due on October 5, 2010, assuming the 2009 law is extended retroactively. But without clarity on which rules…2009 or 2010…will apply, the heirs are uncertain of the tax treatment on the sale of assets to raise the cash needed to pay the estate tax, since the assets only receive a full step-up in basis if the estate tax is retroactively reinstated. If you think this is a big mess, join the club.

In sum, the estate tax law changes in effect in 2010 may not provide all the tax savings promised and could result in some taxpayers paying higher income taxes. At a minimum, the current situation forces all taxpayers to better document the price paid for all their property and might require some taxpayers to incur unnecessary legal expenses to implement the "2010 Patch" to their estate plan. While Congress may act to rectify the problem soon, there is a lack of confidence in Congress' ability to overcome deep philosophical differences to pass any sensible permanent estate tax legislation. So, for clients like John and Mary Smith, the estate tax "repeal" in 2010 may turn out to be a wolf in sheep's clothing.

Clay Stevens

Strengthening Information Security

Late last year, Aspiriant began a new firm-wide information security program that has changed how we interact online with clients when sending and receiving sensitive financial information. The new system reflects a growing trend among businesses in the U.S. to develop more stringent security measures to protect customers' financial information. It follows on the heels of recent privacy legislation in states such as Massachusetts and Nevada that holds companies to stricter standards of information security than in the past.

Jay Owens, Director of Information Technology, talked with our Chief Operating Officer, Tom Tracy, about how the new process is going.

First, let's talk basics - how does the new system work?

Our staff is now able to send messages through a secure website that encrypts emails and attachments during transmittal so they can't be opened by cyber criminals should they fall into such hands. We use this site when delivering anything that contains sensitive data and needs to remain private between the sender and receiver, especially personal financial information. The recipient receives an email in his or her inbox with a hyperlink to the secure message. By clicking on the link, the recipient can log into a secure website to view, download and respond to the message. The password the recipient creates is known only to them.

Did Aspiriant develop this new system from scratch?

No. We worked closely with a leading provider of hosted services in email encryption in the US, the Zix Corporation. Zix provides services to more than 1,100 financial institutions in all 50 states, and among the government agencies using its services are the FDIC, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

What are the benefits to using this new system and a special website?

It provides an additional level of security for the transmission of sensitive financial information and meets privacy and regulatory compliance standards. Increasingly, state and federal legislation is requiring more stringent security to protect consumer privacy. This new program is an efficient and secure way to send private messages while eliminating the cumbersome process of creating, communicating and changing passwords on various attachments.

Does Aspiriant need to use this system for every email we send to clients? Or others with whom we might be sharing sensitive personal information, such as banks or accountants?

No, if we are writing to communicate something that does not contain sensitive information, we can use our regular email channel to send the message.

Can a client or vendor send a secure message to an Aspiriant employee?

Yes. When someone receives a secure email from Aspiriant and logs into the message center, there are "reply" and "reply to all" buttons much like a standard web-based email account. When replying to a secure email message, all contents of the email as well as attachments are secure. So the best way to send Aspiriant secure information is to reply to a message that was received via our secure message center.

Alternatively, once someone has established a password to our secure message center, he or she can log back in at any time to compose a new message to an Aspiriant address. We recommend this procedure to provide security on both inbound and outbound messages with sensitive information.

What has been the response of clients and staff?

We sent out information and instructions to staff and clients prior to putting the new program in place. So far, things have gone reasonably well, but I wouldn't deny that the system takes some getting used to. Since we launched the system early last November, we've received approximately 1 support call for every 100 messages sent. That 1% seems like a minimal number for the volume of messages going through the system.

What are the main issues that have arisen?

Most of the issues have revolved around two issues – message expiration and login concerns. Since the message center was developed as a means of transmitting data rather than storing it permanently, messages expire after 28 days. So if an email has not been read or downloaded in that time period, it is no longer available and the recipient must request that the message be resent by our staff. More frequently, we encounter login problems such as a lost or forgotten password or the difficulty of choosing a password that meets the required complexity standards. Passwords must contain a combination of upper and lower case letters, symbols and numbers to make accounts resistant to attack.

Do you have tips for staff and clients in keeping track of their online passwords?

Yes. Depending on the complexity of your online activity, it could be a good idea to develop a systematic approach to passwords. If you select a new password for every site you visit on the fly, you'll quickly go insane trying to keep track of them all and will be tempted to forget them or write them down where they can be found. Some people choose to categorize Internet sites (banking vs. blog/newspaper sites vs. email accounts) and stick to three or four passwords that they can easily change on a regular basis. Practicing the art of altering or adding certain characters in a basic password (using $ for S, @ for A, etc.) is a common way to create complex passwords that can be remembered. This also provides flexibility if you feel the need to keep a written list, since you can then list hints about the password rather than the passwords themselves.

Of course, you don't want your approach to be based on any underlying principles that could be easily deciphered. You wouldn't want someone to discover one password and thereby have the key to all of them. The secret to passwords is keeping them as complex and random as possible, yet manageable at the same time. It's a difficult balance!

Remember, you don't want to display a list of passwords in plain view or make the classic mistake of storing a Post-It note under your keyboard. If you need to document your passwords on paper, keep them in a locked secure location. There are also various software programs that can help you keep track of passwords or create encrypted folders on your computer for this purpose. It can easily become overwhelming, with passwords protecting other passwords, but with a little forethought you'll be in control of your passwords rather than your passwords controlling you.

Any final thoughts on information security in today's world?

There's a lot to say. It's no surprise that several recent surveys, including one released in March by TechAmerica, have found that information security continues to be the top concern of IT professionals worldwide. As technology plays a profound role in our lives, we'll have to continue balancing privacy concerns with the convenience and satisfaction of living in an online universe. We're living in a fascinating period in which there's a constant mash up of highly fashionable consumer gadgets, an adoration of social networking, a global economy, the threat of cyber terrorism and a real desire for other people to simply mind their own business! Managing information security can feel like battling a modern version of the ancient Hydra. You cut off one intrusion point and before you know it two more have grown back in its place. Hackers will continue developing more sophisticated ways to jeopardize security, and lawmakers and technology innovators will continue fighting back with tools to protect information. Being ready and flexible enough to embrace new situations is fundamentally important. And I often remind myself that as new as everything might feel, we're actually just experiencing our own particular piece of technological evolution. I imagine similar conversations were taking place during the shift from the telegraph to the telephone. So when we get frustrated with all the trappings of modern technology, we can either feel fearful or instead rejoice that we no longer have to learn Morse code to invite a friend to dinner.

Thanks, Jay.

Note: For more information about Aspiriant's secure messaging initiative, please visit the FAQ section of our website at www.aspiriant.com/secure_email_faqs.html

Tom Tracy

PERFORMANCE RESULTS

				1st Quarter 2010	12 Months to 3/31/10	5 Years Annualized to 3/31/10	10 Years Annualized to 3/31/10
Fixed Income	*Taxable*		Benchmark Index: Barclays Capital US Aggregate Bond	1.8%	7.7%	5.4%	6.3%
			Benchmark Fund: iShares Barclays Aggregate Bond	1.6%	7.2%	5.2%	N/A
		*	**PIMCO Total Return Institutional**	3.0%	15.5%	7.5%	7.7%
			Vanguard Intermediate Term Investment Grade	3.4%	22.1%	5.5%	6.6%
		*	**PIMCO Real Return Institutional**	1.3%	13.5%	5.4%	7.8%
			Vanguard Inflation Protected	0.4%	5.9%	4.6%	N/A
	Tax-Exempt		Benchmark: Barclays Capital US Municipal Bond	1.3%	9.7%	4.6%	5.6%
			Benchmark Fund: iShares S&P National Muni Bond	1.2%	8.4%	N/A	N/A
			Vanguard Limited Term Tax Exempt	0.5%	4.3%	3.7%	4.0%
			Vanguard Intermediate Term Tax Exempt	0.8%	7.9%	4.4%	4.9%
			Nuveen Intermediate Duration Muni Bond	1.3%	10.9%	4.1%	4.8%
			Vanguard CA Intermediate Tax Exempt Admin	1.3%	8.4%	3.8%	4.6%
			Vanguard High Yield Tax Exempt	1.7%	16.1%	4.2%	5.3%
			Nuveen High Yield Muni Bond Class	3.7%	36.2%	-0.6%	4.4%
Real Estate	*Global*		Benchmark Index: Dow Jones Global Select Real Estate Securities	5.2%	88.9%	3.1%	11.0%
			Benchmark Fund: 60% SPDR DJ Wilshire Intl RE/ 40% Vanguard REIT Index ETF	4.8%	84.5%	N/A	N/A
			DWS RREEF Global Real Estate Sec	3.0%	79.1%	N/A	N/A
	US		Benchmark Index: Dow Jones US Select REIT	9.8%	113.5%	3.4%	11.4%
			Benchmark Fund: iShares Dow Jones US Real Estate	9.4%	103.2%	2.3%	N/A
			DWS RREEF US Real Estate	9.2%	106.7%	3.9%	12.5%
	Energy		Benchmark Index: Citigroup MLP Index	8.4%	67.9%	11.2%	19.0%
			Kayne Anderson MLP	9.2%	46.5%	8.0%	N/A
Large Cap: Domestic	*Broad Market*		Benchmark Index: Russell 3000	5.9%	52.4%	2.4%	-0.1%
			Benchmark Fund: iShares Russell 3000	5.9%	52.1%	2.3%	N/A
		*	**DFA US Core Equity 2**	8.2%	60.7%	N/A	N/A
		*	**DFA TA US Core Equity 2**	8.0%	59.5%	N/A	N/A
			Vanguard Total Stock Market	6.0%	52.8%	2.6%	-0.1%
	Blend		Benchmark Index: S&P 500	5.4%	49.8%	1.9%	-0.7%
			Benchmark Fund: iShares S&P 500	5.4%	49.6%	1.9%	N/A
			SPDR S&P 500 ETF	5.3%	49.4%	1.9%	-0.7%
		*	**Tax Managed Index Separate Account (Aperio/Parametric)**	*Return based on individual client's portfolio*			
	Value Style		Benchmark Index: Russell 1000 Value	6.8%	53.6%	1.0%	3.1%
			Benchmark Fund: iShares Russell 1000 Value	6.7%	53.3%	1.0%	N/A
			Berkshire Hathaway B	23.7%	44.1%	7.3%	8.4%
		*	**DFA Large Cap Value**	9.8%	71.8%	1.7%	5.7%
		*	**DFA Tax Managed Marketwide Value**	9.7%	72.9%	2.0%	4.2%

* Preferential Access Through Aspiriant
Returns are stated net of manager's fees, but before Aspiriant fees. All fund returns above are stated including the reinvestment of dividends and capital gains.

PERFORMANCE RESULTS

Category	Style		Fund	1st Quarter 2010	12 Months to 3/31/10	5 Years Annualized to 3/31/10	10 Years Annualized to 3/31/10
Large Cap: Developed Overseas	Blend Style		Benchmark Index: MSCI EAFE	0.9%	55.2%	4.2%	1.7%
			Benchmark Fund: iShares MSCI EAFE ETF	0.7%	53.8%	3.6%	N/A
		*	**DFA International Core Equity**	3.0%	65.9%	N/A	N/A
		*	**DFA TA World Ex-US Core Equity**	2.9%	71.8%	N/A	N/A
			Vanguard Total International Stock Market	1.5%	59.5%	5.6%	2.5%
	Value Style		Benchmark Index: MSCI EAFE Value	-0.2%	59.5%	3.8%	4.2%
			Benchmark Fund: iShares MSCI EAFE Value	-0.4%	57.9%	N/A	N/A
		*	**DFA International Value**	2.0%	69.7%	5.4%	7.4%
		*	**DFA Tax Managed International Value**	1.5%	68.0%	5.8%	7.4%
Small Cap: Domestic	Blend Style		Benchmark Index: Russell 2000	8.9%	62.8%	3.4%	3.7%
			Benchmark Fund: iShares Russell 2000	8.8%	62.6%	3.4%	N/A
		*	**DFA US Small Cap**	10.0%	73.9%	3.9%	5.6%
		*	**DFA Tax Managed US Small Cap**	9.1%	62.1%	1.6%	3.9%
		*	**DFA US Micro Cap**	9.5%	67.2%	2.0%	5.2%
	Value Style		Benchmark Index: Russell 2000 Value	10.0%	65.1%	2.8%	8.9%
			Benchmark Fund: iShares Russell 2000 Value	9.9%	64.7%	2.6%	N/A
		*	**DFA US Small Cap Value**	11.9%	81.0%	2.6%	9.4%
		*	**DFA Tax Managed US Targeted Value**	11.5%	75.2%	1.4%	7.4%
Small Cap: Developed Overseas			Benchmark Index: MSCI EAFE Small Cap	4.8%	70.6%	4.0%	N/A
			Benchmark Fund: SPDR S&P International Small Cap ETF	5.0%	67.5%	N/A	N/A
		*	**DFA International Small Company**	5.3%	67.6%	5.2%	8.8%
		*	**DFA International Small Cap Value**	5.0%	68.8%	5.5%	11.8%
Emerging Markets			Benchmark Index: MSCI Emerging Markets	2.5%	81.6%	16.0%	10.1%
			Benchmark Fund: Vanguard Emerging Markets ETF	2.5%	80.4%	14.8%	N/A
		*	**DFA Emerging Markets Core Equity Portfolio**	3.8%	93.8%	N/A	N/A
Commodities			Benchmark Index: Goldman Sachs Commodity Index	-0.9%	25.9%	-6.9%	3.7%
			Benchmark Fund: iShares GSCI Commodity-Indexed Trust	-1.1%	24.8%	N/A	N/A
			GSCI Enhanced Commodity Total Return Strategy Index ETN	-1.3%	25.3%	N/A	N/A

* Preferential Access Through Aspiriant

Returns are stated net of manager's fees, but before Aspiriant fees. All fund returns above are stated including the reinvestment of dividends and capital gains.