

RIVERNORTH RETIREMENT PLAN NEWS

3rd Quarter 2010

Term of the Quarter

STANDARD DEVIATION

A STATISTICAL MEASUREMENT THAT SHEDS LIGHT ON HISTORICAL VOLATILITY. FOR EXAMPLE, A VOLATILE STOCK WILL HAVE A HIGH STANDARD DEVIATION WHILE THE DEVIATION OF A STABLE BLUE CHIP STOCK WILL BE LOWER. A LARGE DISPERSION TELLS US HOW MUCH THE RETURN ON THE FUND IS DEVIATING FROM THE EXPECTED NORMAL RETURNS.

Source: Investopedia.com

QUESTIONS ABOUT YOUR OTHER INVESTMENTS?

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Investing During Volatile Times

By: Chris Lakumb, CFA

For those of you keeping score at home, the 3rd quarter of 2010 (July 1st through September 30th) witnessed an impressive rally in the stock market. U.S. stocks (as measured by the S&P 500 Index) gained 11.29% and are back in positive territory for 2010. Bonds continued to “plug away” with the Barclays Capital Aggregate Bond Index up by 2.5% for the quarter. The improvement in the stock market comes on the back of economic data that indicates the global economic recovery continues to take place, albeit at a slow pace. In fact, the National Bureau of Economic Research (NBER) officially declared that the recession in the U.S. ended in June 2009. For an expanded list of market indexes and their performance through the 3rd quarter, please refer to the table on the back page of this newsletter.

As we know, the 2nd quarter of 2010 was a rough one, and many of us saw a decrease in the value of our 401(k) investments as reported on our quarterly statements. I think the movement in the market over the last two quarters helps us to reinforce some of the things we have been saying over the years. First, the market has been more volatile as of late, relative to its historical averages. Second, making investment changes based solely upon short-term movements in the market is generally a poor decision; and third, quarterly statements are important, but they only display your account at a point in time, and typically the information is two weeks old. Let’s use these last two quarters to dive deeper into these lessons below.

If you check your 401(k) account balance often - and you have a significant percentage of your account invested in equity (stock) mutual funds - then you probably noticed the ups and downs in your account have been more pronounced over the past 2-3 years. This is what we are referring to when we use the term volatility. The statistic most often used by investors to measure volatility is *Standard Deviation*. If you compare the standard deviation (volatility) of the S&P 500 before and after 2007 you will see a significant increase. Furthermore, professional investors in general are expecting volatility to remain elevated throughout the rest of 2010 and into 2011. Why is this important? Because periods of increasing volatility make it difficult for long-term investors to accurately measure their tolerance for risk. Therefore, it increases the likelihood that an investor will make investment changes based solely upon short-term movements in the market.

Unfortunately, investors have a tendency to make changes to their investment strategy based upon emotion as opposed to fundamental changes in their investment objectives or risk tolerance. This tendency causes many investors to sell out of their equity investments when the stock market is falling and buy into equity markets when the stock market is rising. This buy high, sell low mentality has been responsible for a lot of lost wealth over the years. We could fill up the rest of this newsletter

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Investing in Volatile Times - Continued

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ter with research that demonstrates the typical investor, actively managing their portfolio, performs poorly compared to a professionally-managed option geared towards the individual's risk tolerance.

Finally, we would like to take a moment to discuss your quarterly statements. The statement that you receive each quarter from your plan administrator is an important tool for helping you to periodically monitor your 401(k) account. However, it is important to note that this statement is produced at a specific point in time (March 31, June 30, September 30, and December 31). When you factor in production and mailing time, it is very common for the information on your statement to

be *at least* two weeks old by the time you receive it.

Many investors were unhappy when they received their June 30th statements due to the poor stock market performance from April through June. They failed to realize that by the time they received the statement, the market had already recovered a portion of the 2nd quarter loss. The moral of the story is that quarterly statements convey important information, but make sure you aren't making investment decisions based solely upon the information you see in your statement.

Until next quarter...

STOCK AND BOND MARKET RETURNS THROUGH SEPTEMBER 30, 2010							
Source: Morningstar	1 MONTH	3 MONTHS	YTD	1 YEAR	ANNUALIZED		
					3 YEARS	5 YEARS	10 YEARS
Citigroup 3 Month T-Bill	0.01%	0.04%	0.09%	0.12%	1.01%	2.48%	2.41%
Barclays U.S. Agg. Bond Index	0.11%	2.48%	7.94%	8.16%	7.42%	6.20%	6.41%
Dow Jones Ind. Avg.	7.85%	11.13%	5.57%	14.12%	- 5.38%	3.13%	2.51%
S&P 500	8.92%	11.29%	3.89%	10.16%	- 7.16%	0.64%	- 0.43%
Russell 2000	12.46%	11.29%	9.12%	13.35%	- 4.29%	1.60%	4.00%
MSCI EAFE	9.49%	15.79%	- 1.25%	0.53%	- 12.12%	- 0.72%	0.15%

Questions?

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