Plumb Performance Portfolio© ***July-August 2009 Review***
Plumbing the Line Between Risk and Reward

The opinions as to portfolio allocation and specific investment vehicles contained herein are solely the opinions of the author and are not intended to be specific recommendations which would be suitable for every investor. The suitability of any specific investment or recommendation is dependent upon many subjective factors and characteristics of the individual investor including, but not limited to, particular investment objectives, risk tolerance, investment horizon or timeline, net worth, overall portfolio allocation and income needs. Specific investments may be suitable for some investors and yet unsuitable for others due to different needs and objectives. All readers should carefully consider their individual objectives and needs and should consult with their investment and financial advisor as to the suitability of any particular investment. The author specifically disclaims any liability or responsibility for any losses, which may result from any investment or allocation referenced herein.

BACK FROM PARIS & CELEBRATING

I'm not necessarily celebrating not being in Paris. As you know, **I ♥ PARIS** (just read my beret). But, I also love being back in Evanston. The best part is seeing Mary Kay after a month apart (she went on a girl's trip to China and Tibet). Being together again is definitely something to celebrate.

With respect to the ***Plumb Performance Portfolio***©, we're celebrating the fact that this missive turned five years old today! To celebrate, I'm planning to be go live with my website next week. The website will be called the ***Plumb Report***©. I will continue to use the ***Plumb Performance Portfolio***© name, but going forward the ***PPP*** moniker will be used solely to reference the portfolio itself. Since the website is going to be much more than just the portfolio, I felt a broader name was appropriate.

I will send you an e-mail as soon as the website goes live. Until then, here are the results from the past month, the new allocation and a review of the performance of the ***Plumb Performance Portfolio***©.

September 2009 REVIEW

For the month of September 2009 the ***Plumb Performance Portfolio***© was up +5.86% U.S. equities (as measured by Vanguard Total Stock Market Fund) were up +4.23%; U.S. bonds (as measured by Vanguard Total Bond Market Fund) were up +1.18%. Since inception (September, 2004), the ***Plumb Performance Portfolio***© is up +10.53% per year. U.S. equities (as measured by Vanguard Total Stock Market Fund) are up +1.75% per year; U.S. bonds (as measured by Vanguard Total Bond Market Fund) are up +5.08% per year.

The complete results are tabulated below (with more detail in Appendix B):

Asset Class	Investment	Ticker Symbol	Beginning Allocation	1-Month Return
Domestic Stocks	Pimco Fundamental IndexPlus TR	PXTIX	5.55%	6.38%
International Stocks	Dodge & Cox International Stock	DODFX	11.10%	5.86%
Domestic Bonds	Vanguard Inflation-Protected Securities	VIPSX	6.17%	1.87%
Domestic Bonds	Vanguard High-Yield Tax-Exempt	VWAHX	5.15%	5.15%
International Bonds	T. Rowe Price International Bond	RPIBX	5.66%	2.88%
Commodities	Pimco Commodity RealReturn Strategy	PCRIX	28.05%	3.50%
REITs	Pimco REIT	PRRSX	0.00%	9.92%
Precious Metals	Gold	NY close	19.83%	5.97%
Precious Metals	Silver	NY close	18.50%	11.60%
Plumb Performance Portfolio©			**100.00%**	**+5.86%**

I imagine that each month I will have some people who are reading this for the first time. For these new subscribers, I will continue to include the next two sections. These sections will not change much, so you can skip them if you have read them in the past. On a quarterly basis, I will update my longer-term performance.

THE PLUMB PERFORMANCE PORTFOLIO© RATIONALE

Over the years, many people have asked me for investment advice. I think this is because people have the perceptions that I spend a lot of time thinking about investments and that my investing results have been good. Both perceptions are true.

My investment philosophy is somewhat unconventional. I agree with the conventional thinking about the importance of keeping costs low, diversification and minimizing taxes. I part ways with the conventional wisdom regarding a buy-and-hold portfolio dominated by U.S. stocks and bonds. The conventional wisdom worked well in the 80's and 90's, but has not fared well so far this decade. I believe it is destined to underperform in the years ahead.

In contrast to the conventional wisdom, my portfolio encompasses a broader array of asset classes and adjusts the allocation to these asset classes based on expected returns and risks. Since these things change over time, my portfolio adjusts as well. This makes sense to me and it has worked. I call this approach "Fundamental Asset Allocation."

The table below shows the performance of the ***Plumb Performance Portfolio©*** (my real-life portfolio, not a back-tested version of simulated performance) relative to various combinations of U.S. stocks and bonds.[1] This performance information is updated quarterly.

Return Performance of Various Stock/Bond Portfolios
Relative to the *Plumb Performance Portfolio*©

Annualized Return as of 9/30/09	100% Stock	3/4 Stock 1/4 Bonds	1/2 Stock 1/2 Bonds	1/4 Stocks 3/4 Bonds	100% Bonds	***Plumb Performance Portfolio*©**
1-year	-6.1%	-0.9%	3.6%	7.4%	10.5%	**11.0%**
3-year	-4.7%	-1.5%	1.4%	4.0%	6.4%	**8.0%**
5-year	1.7%	2.9%	3.9%	4.6%	5.1%	**10.5%**
10-year	0.8%	2.5%	4.0%	5.1%	6.0%	**11.1%**

One of the standard measures of risk is the volatility of a portfolio. By this measure, over the long-term, the ***Plumb Performance Portfolio*©** has been about as volatile (or risky) as a 3/4 U.S. stock-1/4 U.S. bond portfolio.

Quarterly Standard Deviation of Various Stock/Bond Portfolios
Relative to the *Plumb Performance Portfolio*©

Quarterly St'd Dev. as of 9/30/09	100% Stock	3/4 Stock 1/4 Bonds	1/2 Stock 1/2 Bonds	1/4 Stocks 3/4 Bonds	100% Bonds	***Plumb Performance Portfolio*©**
1-year	19.9%	14.9%	9.9%	5.0%	1.8%	**13.7%**
3-year	11.5%	8.6%	5.8%	3.1%	1.8%	**9.8%**
5-year	9.3%	6.9%	4.7%	2.6%	1.8%	**7.6%**
10-year	9.7%	7.1%	4.6%	2.3%	1.8%	**7.3%**
Average	**12.6%**	**9.4%**	**6.2%**	**3.3%**	**1.8%**	**9.6%**

[1] For comparative purposes, I use Vanguard's Total Stock Market Fund ("VTSMX") and Vanguard's Total Bond Market Fund ("VBMFX"). I believe portfolios composed of these two funds are very representative of the investment portfolio of most Americans. (The comparative portfolios have been rebalanced quarterly to maintain the desired asset allocation).

The following rankings are as of September 2009. The ***Plumb Performance Portfolio***© has also outperformed most mutual funds:

- The portfolio's 5-year return ranks above 97% of the mutual funds that have survived for the last five years.
- The portfolio's 3-year return ranks above 98% of the mutual funds that have survived for the last three years.
- The portfolio's 1-year return ranks above 80% of the mutual funds that have survived for the last year.

I have been unable to find a comprehensive list of 10-year returns for mutual funds, but:

- Vanguard has 85 funds that have survived for ten years; the ***Plumb Performance Portfolio***© has outperformed all but 3 of them over this period.
- Fidelity has 187 funds that have survived for ten years; the ***Plumb Performance Portfolio***© has outperformed all but 6 of them over this period.

The ***Plumb Performance Portfolio***© has consistently outperformed the majority of mutual funds over time and substantially outperformed a balanced portfolio of U.S. stocks and bonds (with similar risk). My goal is to outperform 95% of mutual funds over any 10-year period. Roughly, this would translate into outperforming 60% of mutual funds during any given year (which I exceeded by 20% in the most recent 12-month); outperforming 84% of mutual funds during any given 3-year period (which I exceeded by 16%); outperforming 90% of mutual funds during any given 5-year period (which I exceeded by 7%); and outperforming 95% of mutual funds during any given 10-year period (which I exceeded by 1%).

For these reasons, I am writing this monthly investment letter. The opinions expressed herein are strictly my own. My past performance has been good, but it could also be meaningless. It could be just luck. There's no way we'll ever be able to statistically prove that I have superior investing acumen. I won't live that long. It winds up being a "faith-based" investment decision on your part. It is up to you to carefully evaluate the clarity of my arguments and the rationality of my opinions to assess their merit. You need to decide whether or not this performance has been luck. It's your money and your future. Invest at your own risk. If you would like to stop receiving this investment letter, just send me an e-mail (plumbperfport@comcast.net). Conversely, if you know someone who would like to be added to the mailing list, please have him or her send me an e-mail as well.

THE PLUMB PERFORMANCE PORTFOLIO©

The ***Plumb Performance Portfolio***© consists of U.S. Stocks, International Stocks, U.S. Bonds, International Bonds, Commodities, REITs, Gold and Silver.

Below is a list of investment vehicles I am currently using to implement the ***Plumb Performance Portfolio***©. I have chosen these vehicles based on low fees, minimal initial purchase requirements, and a belief in their future performance potential. I am always on the lookout for better candidates (and I replaced two of the funds at the beginning of 2006). Subscribers should feel free to alert me to other candidates that fit the criteria of the ***Plumb Performance Portfolio***©.

- **U.S. Stocks:** Pimco Fundamental IndexPlus TR Fund ("PXTIX")[2], appropriate for a taxable or tax-advantaged account.
- **International Stocks:** Dodge & Cox International Fund ("DODFX"), appropriate for a taxable account.
- **U.S. Bonds:** Vanguard Inflation-Protected Securities ("VIPSX"), best held in a tax-advantaged account (IRA or 401k) and Vanguard High-Yield Tax-Exempt Fund ("VWAHX") for a taxable account.
- **International Bonds:** I currently use T. Rowe Price International Bond Fund ("RPIBX"), best held in a tax-advantaged account.
- **Commodities:** An investment in commodities is currently one of the most important parts of the ***Plumb Performance Portfolio***©. I use Pimco Commodity RealReturn Strategy Fund. The most cost-effective way to invest in this fund is through the institutional shares ("PCRIX"). This share class can only be purchased through a broker. I use Vanguard Brokerage Services. This is best held in a tax-advantaged account.
- **REITs:** REITs are Real Estate Investment Trusts. I currently do not allocate anything to REITs. When I resume allocation to REITs, I plan to use Pimco RealEstateRealReturn Strategy Fund ("PRRSX")[3], best held in a tax-advantaged account.
- **Gold and Silver:** Gold and silver are also currently an important part of the ***Plumb Performance Portfolio***© and, until recently, somewhat difficult for individual investors to buy. Initially, I began investing in precious metals by building a core position in physical precious metals (specifically, 1-oz Gold American Eagles, 1-oz. Silver American Eagles and bags of pre-1967 90% silver U.S. coins). I also buy gold and silver in the futures markets. For purposes of measuring portfolio performance, I will use the closing spot prices in New York. Recently, securities have been

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[2] Until 12/31/05, I used Vanguard U.S. Value Fund ("VUVLX"). VUVLX is still not a bad choice, especially for smaller portfolios.

[3] Until 12/31/05, I used Vanguard REIT Index Fund ("VGSIX"). VGSIX is still not a bad choice, especially for smaller portfolios.

introduced to make it easier for small investors to participate in the precious metals markets. In 2005, a gold exchange traded fund ("ETF") was introduced that allows investors to participate in the gold market just like they would with a stock. The ETF is called StreetTRACKS Gold Trust ("GLD"). In April 2006, a similar ETF was introduced for silver. It is called iShares Silver Trust ("SLV"). To learn more, see Appendix A.

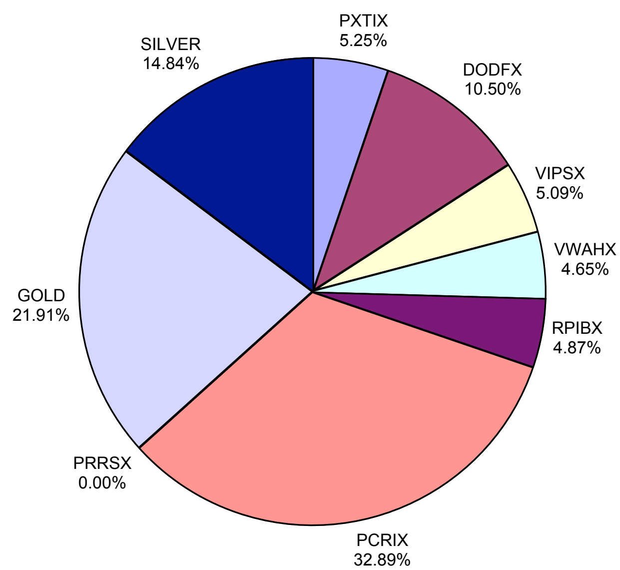
THE PLUMB PERFORMANCE PORTFOLIO© ASSET ALLOCATION

As of October 1, 2009, the ***Plumb Performance Portfolio©*** asset allocation is as follows:

Investment	Ticker Symbol	Allocation Last Issue	Allocation This Month
Pimco Fundamental IndexPlus TR Fund	PXTIX	5.55%	5.25%
Dodge & Cox International Stock	DODFX	11.10%	10.50%
Vanguard Inflation-Protected Securities	VIPSX	6.17%	5.09%
Vanguard High-Yield Tax-Exempt	VWAHX	5.15%	4.65%
T. Rowe Price International Bond	RPIBX	5.66%	4.87%
Pimco Commodity RealReturn Strategy	PCRIX	28.05%	32.89%
Pimco RealEstateRealReturn Strategy Fund	PRRSX	0.00%	0.00%
Gold	GLD	19.83%	21.91%
Silver	SLV	18.50%	14.84%

This month's allocation is depicted below:

Plumb Performance Portfolio **Asset Allocation**



Lately, I've been trying to carry a philosophy around with me. It applies as well to investing as it does to life in general:

We can't control the direction of the wind, but we can adjust our sails.

Enjoy today (unless you've made other plans)— Chip Plumb