



PORTFOLIO UPDATE

Last year was a calamity for investors. Investments of every type, from stocks to bonds to commodities and (especially) real estate, were relentlessly battered. The RCM portfolio did not escape the damage. Our portfolio declined about 41% last year (net of fees). The SP 500 Index did about the same, falling 37%. Our underperformance relative to the Index is largely related to our foreign stocks, particularly emerging markets, which held out in the early part of the year, then collapsed spectacularly later in the year.

COMMENTARY

But, that was last year. As I mentioned in my November commentary, there is little benefit from wallowing the sad news of last year. The issue now: What is the outlook for the future? Unfortunately, the outlook is unclear. The economy and stock market are in uncharted waters. While the worst of the devastation is probably behind us, the immediate future may not be smooth sailing, despite the government's best efforts.

For the future, my working premise is that the economy and the market will progress through two stages. The near term stage will be a continuation of the worldwide economic recession with deflationary pressure on the dollar. The federal government will continue its massive stimulus activities. Whether or not this has the intended effect of shortening the recession we will have to wait and see. In these conditions, sustainable capital gains will be effectively nonexistent. Yield is the name of the game. Consequently, our portfolio now holds only about 45% stocks funds, most of which are recession-resistant, defensive holdings, and all of which yield dividends. The remainder of the portfolio is income-oriented funds of various sorts. All together, the portfolio currently yields 7-8% (depending on whether an individual account is taxable or tax-exempt).

The stimulus efforts of the government during this first phase will lead to the headline issue in the next economic stage – inflation. The economy will probably be growing by then, if only modestly. However, the conditions will likely be reminiscent of the 1970's when a stagnant economy and inflation coexisted, so called stagflation. Successful investing in that stage will require a different strategy than focusing on yield. When does the near term change to the later term? No one knows. I suspect it will be somewhere in 2010, though we will have to watch as events unfold.

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	Stocks	Income	Other Assets
Foreign 40-50%	15%	Foreign Bonds 10%	Commodities Real Estate
		Equity Income 15%	
Domestic 50-60%	30%	U.S. Bonds 30%	
	45%	55%	0%

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Dr. Rollins has earned both the Chartered Financial Analyst® designation and Certified Financial Planner™ credential. He was awarded the CFA® designation in 2004. The CFA charter is the only credential for investment analysis and management recognized worldwide. Recipients of the CFA charter have successfully completed a graduate-level educational curriculum, and have passed a series of three sequential annual examinations. Pass rates average about 50 percent at each examination level. In 2005, he also successfully completed financial planning coursework and passed the qualifying examination for the CFP® credential.

Company Profile

ROLLINS CAPITAL MANAGEMENT is a fee-only financial advisory firm serving individuals. Using a consistent, patient investment strategy, our focus is long-term, high-quality, personalized investments. Clients have their own individualized accounts. ROLLINS CAPITAL MANAGEMENT handles all the daily investment decisions.

Presentation Disclosures

1. Portfolio composite returns are actual total annual returns, including stock price appreciation, dividends, corporate spin-offs and divestitures, and other occasional cash and non-cash distributions.
2. All returns are actual annual returns for each full year displayed or are year-to-date results for the most recently displayed year.
3. Portfolio composite returns represent an asset-weighted combination of the equity components of fee-paying client accounts under management in the period specified, reported net of all withheld fees.
4. Annual portfolio composite returns and benchmark annual returns use a time-weighted calculation over the period specified.
5. Annualized portfolio composite returns and benchmark returns are calculated as the geometric mean of annual returns.
6. Portfolio and benchmark risk measures calculated using methodology provided by RiskGrades®.
7. Detailed disclosures available on request.

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