



A CASE OF WHIPLASH A NOTE FROM JOE ROMANO



It is hard to believe that 2011 has already come to a close as the year has whizzed by. The market has been abuzz as well, although rather than “whizzing” upwards it has been “whip sawing” sideways. No doubt, 2011 is a year in which the market will be remembered for its tremendous volatility, particularly in the third and fourth quarters of

the year. “Whiplash” was the title of an email a client wrote to me during the fourth quarter, and I can’t think of a more descriptive term for summing up recent market events.

Consider this very interesting statistic published in a mid November market commentary by Morningstar. The report states that on Friday, November 11 the Dow Jones Industrial Average closed at 12,153, which represents a gain of just 10 points or +0.09% from the end of July when the volatility began. But in that 74 day period the Dow gained 6,781 points on up days and lost 6,771 points on down days. That’s a total of 13,552 points travelled in price changes, which is more than the current value of the index and more than double the point movement in the 74 days immediately preceding the period. That’s an awful lot of movement for a measly 10 point gain.

As everyone is painfully aware by now, it’s the usual suspects, namely the sovereign debt woes of the European Union that the markets have now become fixated upon. This has been headline news dating back at least 18 months, but in typical fashion, markets have just begun to focus on it during the last few months. In fact, in light of the “news” the market saw a 17% drop in the two weeks spanning the last week of July and first week of August, and a decline below 10,500 in September.

All eyes are on Europe because of the fear of contagion, mainly that the woes will spread to other EU member countries, their banks, and multi-national banks around the globe. In our view, this is not an entirely unrealistic possibility and a development that should be watched carefully. It appears that we’ve learned very little since 2008 and investors are again concerned with financial engineering and excess leverage, though this time not due to credit default swaps on our own mortgage backed securities but based on exposure to European sovereign debt. The first cracks in the foundation have appeared, with the falling of MF Global because of their reckless European bets and Lehman-like levels of leverage (north of 30 times).

We’ve never touted ourselves as market timers nor are we calling for the next crash. But we are simply illustrating

the point that given the backdrop of these problems and the Dow hovering just over 12,000 we are being cautious with your money and attempting to, as best we can, hedge our bets. Because we are concerned with the possibilities of continued high volatility and modest economic growth globally compounded by extremely low interest rates, we believe that in the near to intermediate term a major part of total investment return will have to come from cash distributions on portfolio holdings rather than price appreciation. Consequently, we favor conservative, large cap stocks with above average dividend yields. As the recent period has shown, we believe we will continue to be in a volatile market environment and while equity price movements may be severe, corporate cash flows (not to mention a healthy stash of cash) are king. Stay tuned.

On another note, this is a very special newsletter as it is the kickoff for our 50th anniversary year in business, quite a milestone that I’m sure our company’s founders could hardly fathom becoming a reality. With the holiday spirit still in the air, this is an especially sentimental time and I am thankful to be celebrating this landmark in the company of my father and mentor Dick. He has been an inspiration not only to me, but to each and every employee. Dick has forged a culture of putting client interests first safeguarded by having our own money invested alongside yours. This has become a core value that is deeply instilled in the fabric of each of us here.

Accordingly, this newsletter serves not only as a celebration and retrospective of the past 50 years, but also brings a glimpse as to what’s in store for the next 50. We’ve already conceived and are rolling out many new and exciting changes throughout the coming year that are designed to enhance your client experience and keep us at the forefront of our industry. Of course, you’ve probably already noted our new look embodied in our logo, which is described further inside.

In short, we expect this to be a banner and celebratory year—not of just us, what we do or how we do it—but of our clients like you who have made it possible. In our planning process we’ve made painstaking efforts to make sure that we connect with each of our clients in some way so that all may participate in the upcoming festivities whether in the Chicagoland area or from coast to coast.

From all of us here, thank you for 50 years, and thank you for your continued trust and confidence in us.

Joe

THE PAST—A HISTORY OF ROMANO BROTHERS & CO.



An excerpt from my wife Margaret's 1962 Easter newsletter to family and friends best puts you in the moment of the founding of what is today Romano Brothers & Co.

It was August 1962 when we received the telegram from the U.S. Securities and Exchange Commission stating that our application to become a broker/dealer was approved. In retrospect, it's rather a bizarre story because here were two young guys with no professional experience in the securities industry starting a brokerage firm. Needless to say, it was a long and difficult startup as evidenced by one vivid memory that in the month of March 1964, a year and a half into this venture, total gross receipts for the firm were \$256. Needless to say, family finances were a challenge. Between my brother Bob and me, we had 11 people to support.

We remained confident in our business model of conservative, risk-averse investment advice combined with very responsive and personalized service. With a bit of hard work, a dose of perseverance and a huge amount of good fortune, the idea caught on. As we fast forward to today, we are a very healthy firm holding over 850 million dollars of client assets with a staff of 18 very talented professionals dedicated to delivering outstanding investment services to approximately 1500 wonderful clients.

Stock markets themselves have changed markedly over the years. In the early 1960s there was no automation besides the telephone and the telegraph. Orders were transmitted to the New York Stock Exchange by telegraph and the over the counter market (OTC) business was done firm to firm by telephone. There was no central clearing house for transactions where sellers delivered stock and received money and where buyers paid money and received stock. All transactions were settled by physical delivery versus payment. This was before the introduction of computers into the securities industry, and was still the era of the paper ticker tape for reporting transactions.

By the late 60s and early 70s computer processing of transactions started to occur and the volume of trading began to accelerate. But the systems were fairly primitive and in the early 70s the ability of the industry to process the trades accurately fell behind the trading volume and we had massive paper jams in the system industry-wide. Trade processing became so bogged down that we had to suspend trading every Wednesday for about a year, and for another year or so, though open five days a week, markets were closed two hours early every day.

All of this is well behind us. Today we have unimaginable computing power on every employee's desk and incredible information transmission and storage capacity. We have automated systems for order entry, execution, confirmation and clearing, and rarely do we see a physical stock or bond certificate these days. In the early 60s an average day of trading activity on the NYSE was 3 million shares, whereas, today the typical day is 1.5 to 2.0 billion shares, and NASDAQ routinely trades an additional 1.8 to 2.5 billion shares per day.

The menu of investment products has expanded enormously over the last 50 years. The whole panoply of derivatives such as options, futures, variable annuities, exchange traded funds, structured notes, swaps and many more, either did not exist or were not widely traded. Money market funds weren't even born until the early 70s.

There have been market fads that have come and gone over the years. At various times we have seen bubbles in various stock groups. Early on it was life insurance stocks, then airlines, gambling stocks, oil and gas exploration, gold and gold mining (Is this déjà vu? Gold is currently over \$1600 an ounce, a level never before seen.) and of course the mother of all bubbles—the internet stocks of 1998 to 2000.

Not only have we had times of excess euphoria in our markets, but we've also suffered some dark periods. (Yes Virginia markets are volatile.) Some of the more notable ones that come to mind are the great stagflation of the 70s when we had double digit inflation and a 20 plus percent prime interest rate with Treasury yields upward of 16 percent. Then there was Black Monday,

October 19, 1987, when we had a serious market panic that ended with the Dow Jones Average down 22 percent on that one day; the Long Term Capital debacle in 1998 that threatened the collapse of the whole banking system; and most recently the meltdown of the housing and mortgage market which again threatened the whole financial system.

Today, we can't pick up a newspaper and not read about the deficit problems of the European Union nations and the sorry state of several of their governments and their banks. While I feel confident that this too shall pass, there are serious issues in this arena. Is the situation hopeless? Not at all. This is just another bump in the road which will gradually be worked out—not without some angst and agony. But based on my 50 years in the U.S. markets, I believe we have the greatest market system in the world that cyclically over indulges but eventually rights itself.

I continue to believe that we at Romano Brothers have the best business model for clients who are seeking intelligent and conservative financial, investment and estate planning advice with a very high level of personal service. We pride ourselves in our quick response to client calls and emails and in having a human answer your phone call—no menu needed to speak to a real live person. We also invest our own funds in the same securities that we recommend to our clients. Joe likes to say we eat our own cooking, and nothing focuses one's attention like having his/her own money on the line.

The world continually grows much more complex in terms of the various investments available, tax issues, estate issues. The average person probably needs the services of a financial quarterback like us to navigate through this complexity now more so than ever. Having prevailed these past 50 years, we look forward to the next 50 years with optimism and confidence that we will be able to intelligently advise our clients through the inevitable challenges that will arise from time to time. From all of us at Romano Brothers, we thank all of you, our friends and clients, for your trust in us and truly consider it a privilege to serve you.

Dick



THE FUTURE—ROMANO WEALTH MANAGEMENT

INTRODUCING OUR NEW BRAND IDENTITY...REFLECTING OUR COMMITMENT TO YOU



ROMANO
BROTHERS & CO.
WEALTH MANAGEMENT

Protecting Your Prosperity. Securing Your Future. Since 1962.

A milestone year such as this is a good time to take stock of core values. There's one that matters most to us at Romano—complete commitment to you, our clients. We wanted our logo and tagline to reflect that commitment. Our new identity tells this story by visually reflecting that we:

- Have successfully managed our clients investments for 50 years through many economic cycles—both boom and bust;
- Hold true our mission to protect, preserve, and grow your wealth and your family's wealth for years to come;
- Have strong foundational values set forth at the beginning that continue today and into the future;
- Are committed to communication and technology so no matter where you are in the world, you have a trusted and near-by partner in us;
- Align our interests and hone our skills by co-investing our own money alongside of yours.

To reflect our new identity, our website address is changing to www.romanowealth.com. And on all of our future communications with you, including how we answer the phone, you will see and hear, "Romano Wealth Management."

50TH ANNIVERSARY CELEBRATION

Instead of celebrating and congratulating ourselves on half a century in business, we decided that our golden anniversary is a golden opportunity to celebrate and thank you. The last 50 years would not have been possible without you. So during this special year, we'll be focusing on client appreciation activities including a special event with a keynote speaker and party.

Together we'll look forward to the next 50 years.



MORE COMMUNICATIONS

Also in the spirit of client appreciation and commitment, we intend to increase communications, both in quantity and method, with you over the coming year and beyond. With the expected continued volatility of the market and the global impact, we want you to be assured that we are doing our due diligence when it comes to your money. We also want our materials to accurately portray our conservative investment and service-based business philosophies that began in 1962 and have been fostered ever since.

Much of the new communications will be electronic—periodic ebulletins and enews—so please make sure we have your email address(s) or let us know if you prefer another form of communication.

We're also developing a map to hang in our Evanston, Illinois office that features photos of our clients. We are serving generation to generation and coast to coast and we want to celebrate this! Help us by sending your favorite individual, family, or vacation photograph. Please mail your photo to: Romano Wealth Management, 1560 Sherman Avenue, Suite 1300, Evanston, Illinois, 60201; or email as a jpeg file to ksidney@romanobrothers.org.



John & Jane D.
San Diego, CA
Client Since 1987

We respect your privacy so let us know how you would like your name to appear. Please see actual size of pictures and samples of how your name might appear to the left.

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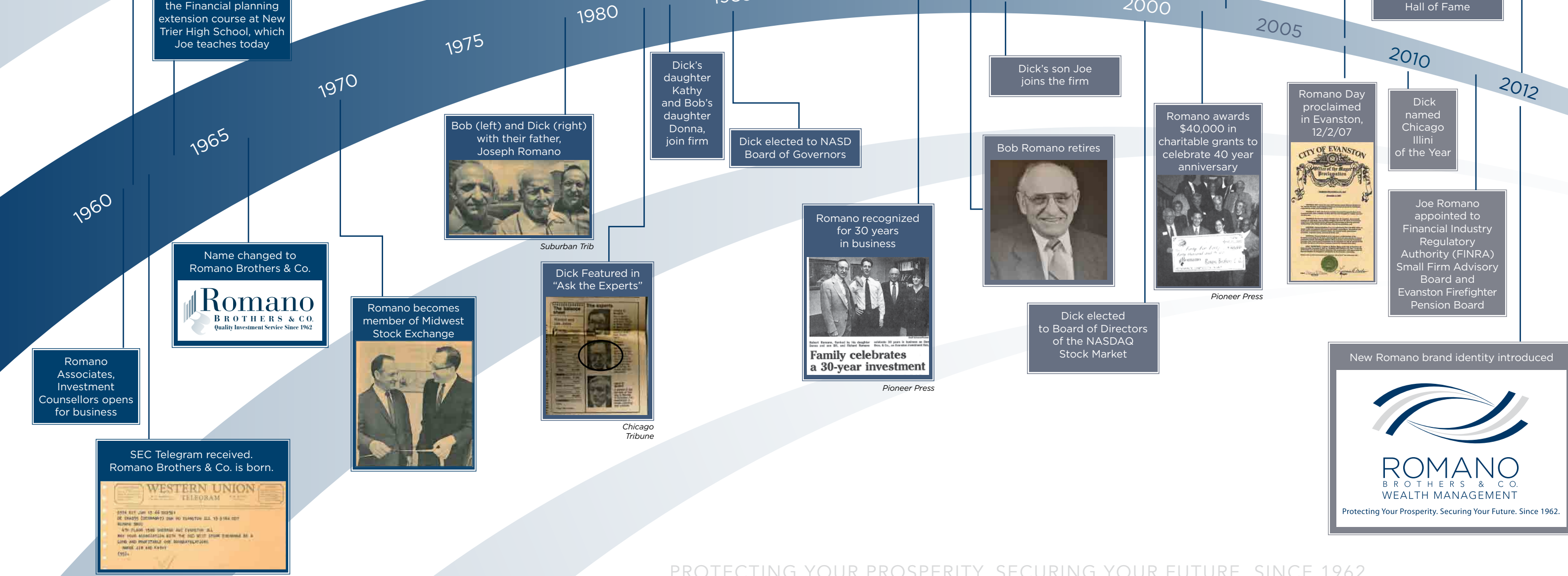
Dick

1962 Family newsletter from Margaret Romano

Last week-end Dick's brother Bob came here and they finalized their plans for a joint business venture. They are "Romano Associates, Investment Counsellors." They got this idea a year ago when Dick's Dad sold his building and turned to them for advice in investing a fairly large sum. They found out that unless one has \$100,000.00 or more, no established investment counsellor would deal with them. And they found brokerage offices unsatisfactory. They felt they were "pushing" stocks which were not at all suited to their Dad's needs. Thus they got the idea that there was a need for investment counselling service for people with as little as \$5 to 10,000 to invest who might not have the experience or knowledge to invest wisely. Bob sold his store; he has rented an office just 1/2 mile in the bank building in Evanston. It's being remodeled. So now he's shopping for furniture. This will be Bob's full time job, but he and Dick will work together on the portfolio's of their clients.

So Dick spends his lunch hour at Monsanto's library and Saturdays at the St. Louis Library reading financial and business magazines, etc.

Dick is in high spirits. Instead of feeling bogged down with all his work, he is doing, he seems to work better, is more zealous, energetic and organized. He's really happy. I think I'm objective and not emotional when I say I have complete confidence in the abilities of Dick and Bob. They each are a hard to beat combination of brains, drive, and dedication to a job. With God's help, if anyone can succeed in a business, it should be them.





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PROTECTING YOUR PROSPERITY. SECURING YOUR FUTURE. SINCE 1962.



DAVE DAVENPORT RECOGNIZED AS ONE OF CHICAGOLAND'S BEST WEALTH MANAGERS

Chicago Magazine surveyed consumers and financial services professionals to find wealth managers in the Chicagoland area who scored highest in overall satisfaction. Consumer responses expressed concern that with more than 31,000 wealth managers in the Chicagoland area, how do you find someone who listens, represents your interests, and operates with an emphasis on integrity and service. Only two percent of wealth managers in Chicagoland were given the elite Five Star status as published in the November 2011 edition of Chicago Magazine. This is Dave's second year in a row for this recognition. Congratulations to Dave Davenport!



PORTFOLIO MANAGER
Romano Wealth Management