

September 2009

Dear Clients,

Equity indices continue to provide outsized gains turning in one of the best quarterly returns in a decade as evidenced in the accompanying chart. The rising tide lifted all boats as most all domestic and global equity indices appreciated dramatically. Not to be left out, both global and domestic bond markets also produced strong returns. Investors have embraced risk as the global economy stabilizes, capital markets have normalized, and cash alternatives provide negative inflation adjusted returns. Outperforming sectors include Financials, Industrials, Materials, and Consumer Discretionary groups; all perceived beneficiaries of a cyclical recovery. Laggards include Telecom Services, Utilities, and Healthcare defensive segments, illustrating investors risk preference. Additionally, the dollar continued to decline against most global currencies and aside from some agricultural items, commodities prices continued their ascent throughout the quarter. On balance, it is continuation of the trends seen through most of the second quarter albeit with higher prices and valuations at somewhat less attractive levels.

As mentioned in past quarterly commentaries, the resurgence of M&A business will be an early indicator of corporate confidence and a signal the worst is behind us. We are beginning to see just that as there has been increasing activity with several large mergers announced and completed during the quarter. Aside from the financial sector, corporate balance sheets have greatly improved coming out of the corporate crisis. Record low interest rates have allowed refinancing at favorable terms; conservative spending throughout the crisis has left them flush with cash and cash flows have stabilized as aggressive cost cutting kept pace with revenue declines. Corporate chiefs are signaling their comfort and confidence with these deals as they attempt to grow the top line in a reset slower growth domestic economy. We should see more of these in the future.

The average consumer does not seem to share the same enthusiasm. Unemployment continues to rise as we adjust to a reduced level of growth. Portfolios scarred in the credit crisis remain largely in cash with inflows predominantly seen into bond funds at unattractive yields. Pessimism abounds as evidenced from the various data points we receive from our clients concerning business conditions and a lack of faith in the capitalist system. Psychologically, we understand this reaction to the historic events of the recent past and this may create a generational shift in attitudes towards investment and risk. We think this would be a mistake. Going forward year over year comps will show improvement. The markets should not decline to levels witnessed in March as the threat of a complete financial meltdown has been averted. Global growth and consumption will resume and this will be reflected in equity and asset prices.

The Fed tone has also turned positive. The hopeful optimism exhibited by the Fed early in the year has evolved into more overt confidence in economic salvation. The statement from September 23rd, reads as follows: "Information received since the Federal Open Market Committee met in August suggests that economic activity has picked up following its severe downturn. Conditions in financial markets have improved further, and activity in the housing sector has increased. Household spending seems to be stabilizing, but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment and staffing, though at a slower pace; they continue to make progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to

remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will support a strengthening of economic growth and a gradual return to higher levels of resource utilization in a context of price stability.

With substantial resource slack likely to continue to dampen cost pressures and with longer-term inflation expectations stable, the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will continue to employ a wide range of tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period....” The Fed, in contrast to past statements, is declaring the recession to be over.

We are not without our concerns. General valuations in the equity markets are no longer at bargain basement levels. Projections for earnings growth may be a bit too rosy in certain segments and we question how much prosperity has already been priced into the market. Economically speaking, we wish to see stimulus measures remain in place until there is overwhelming empirical evidence of economic growth. We wish to avoid the mistake of the Japanese, removing stimulus too early and extinguishing growth. Geopolitically, we fear protectionism measures as a backlash to economic adversity as well as the brewing problems in Iran and Afghanistan. In summary, however, we are seeing things improve; debate about the recovery is more about timing than direction.

Our advisory portfolios continue to provide strong positive returns, however, we have lagged the indices in the quarter due to our defensive cash position. The protective measures taken in 2008 now create a “cash drag” on overall portfolio performance. We have erred on the side of principal protection. There is nothing more frustrating for a portfolio manager than to be underinvested in a rising market and we feel that pressure daily. We will continue to exhibit prudent discipline in our portfolio additions. We are accumulating positions other investors have shunned, primarily in the aforementioned defensive sectors where valuations are compelling. We are trimming positions other investors are chasing, in particular, corporate bonds purchased early in the cycle now providing little in the way of return. We anticipate an improved entry point for stocks in general and we continue to adhere to cautious portfolio management principles with a discerning eye on valuation, risk and return. Thematically, we continue to favor infrastructure, energy and energy services for growth, and healthcare, utility and consumer staples due to compelling valuations. We look to increase our exposure to faster growth global economies and other domestic cyclical firms that benefit from their expansion. These include domestic exporters, basic materials providers, and large international firms. We will continue to be disciplined in our selection process and patient in our execution. ❖

Equity Market Statistics as of September 30, 2009

<i>Index</i>	<i>3rd Quarter</i>	<i>YTD</i>
<i>DJ</i>	<i>15.82%</i>	<i>13.49%</i>
<i>S&P 500</i>	<i>15.61%</i>	<i>19.26%</i>
<i>NASDAQ</i>	<i>15.66%</i>	<i>34.58%</i>

**All performance statistics indicate price appreciation and dividends reinvested into the index during the quoted time period.*

US Treasuries

<i>Maturity</i>	<i>Yield</i>
<i>2 year</i>	<i>.94%</i>
<i>5 Year</i>	<i>2.31%</i>
<i>10 Year</i>	<i>3.30%</i>
<i>30 Year</i>	<i>4.04%</i>

Commodities

<i>Commodity</i>	<i>3rd Quarter</i>	<i>YTD</i>
<i>Crude Oil</i>	<i>-3.46%</i>	<i>51.28%</i>
<i>Natural Gas</i>	<i>23.81%</i>	<i>-15.28%</i>
<i>Gold</i>	<i>8.14%</i>	<i>13.6%</i>
<i>Silver</i>	<i>20.71%</i>	<i>44.18%</i>
<i>Copper</i>	<i>24.27%</i>	<i>101.15%</i>
<i>Nickel</i>	<i>14.54%</i>	<i>50.66%</i>
<i>Aluminum</i>	<i>-2.66%</i>	<i>2.74%</i>
<i>Wheat</i>	<i>-20.64%</i>	<i>-33.26%</i>
<i>Corn</i>	<i>-7.90%</i>	<i>-25.08%</i>