

December 2009

Dear Clients,

Our portfolios have performed in line with the S&P 500 for the quarter and the year with much less volatility and high cash levels. We continued to add positions selectively and investors were rewarded. For the quarter, the major domestic indexes once again realized outsized returns as notated in the accompanying chart. Traders appear to have dismissed the near failure of the capital markets and have embraced riskier asset classes, emerging markets and “junk” credits. Confirming the positive bias corporate bond spreads, the yield difference between US Treasuries of the same maturity, continued to narrow. This signals confidence as bondholders demanded less risk premium for their capital pushing bond prices higher and yields lower. With short term rates at virtually zero investors continue to seek out improved alternatives in the equity and bond markets. Sector wise, ongoing strength was evident in the Technology, Transports, Materials and Consumer Discretionary segments for the quarter and the year, indicative of a recovering economic climate. Commodity prices continued their ascent affirming increased demand. The global economy continues to grind ahead, central banks have maintained an abundance of liquidity and financial firms continue to repair their balance sheets. The trend in place since early March remains constant and favorable for investors as we climb out of the deflated credit bubble.

The Fed tone continues to improve with each subsequent FOMC meeting and an incrementally more positive outlook is evident. We view these reports as insightful for two reasons; one, the Fed has an advantaged viewpoint into vast amounts of data not readily available to the general public and two, they use the statements to telegraph their intentions so as not to surprise market participants. The highlights from December 16th read as follows: “...economic activity has continued to pick up and that the deterioration in the labor market is abating. The housing sector has shown some signs of improvement... Household spending appears to be expanding at a moderate rate, though it remains constrained by a weak labor market...Businesses are still cutting back on fixed investment...and remain reluctant to add to payrolls...Financial market conditions have become more supportive of economic growth...With substantial resource slack likely to continue to dampen cost pressures... inflation will remain subdued for some time. 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, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period...” We think the Fed is saying that they see muted growth without inflation and they will maintain their accommodative stance until employment figures improve. We fear the consequences of premature restrictive policy actions on the economy and the markets. Let’s hope the timing is well executed.

We are unchanged in our global strategic view. The overall economic pie is growing while our relative slice is shrinking. Our growth compares unfavorably to faster growing and/or emerging nations such as the so called BRICs (Brazil, Russia, India & China). As these economies prosper and attract capital for expansion there will be continued demand pressure on the prices of raw materials and commodities. As their per capita income improves personal consumption will increase. Their economies will be less dependent on exports and a viable middle class will emerge. Thematically, we

continue to favor exposure to firms that benefit from this global expansion, including infrastructure, basic materials, energy and services and exported consumer goods.

In our equity portfolios we have increased our exposure to the cyclical basic materials sector in light of improving economic data. We envision adding to our cyclical bias with companies that will benefit from an improving economy both domestically and abroad. Additionally, we will include more exposure to ADRs (foreign companies traded on US exchanges) that provide higher earnings growth rates, increased global exposure and protection against dollar weakness. We maintain higher than normal cash positions and anticipate improved buying opportunities in the future. We think going forward individual equity selection will be key to portfolio performance as the spectacular rally gets long in the tooth.

As noted earlier, bond yields have compressed dramatically and offer little opportunity for long term investment. Subsequently, we have trimmed our bond positions due to significant price appreciation and less than attractive yields. With the probability not too far in the future of rising interest rates, we cannot rationalize locking up capital for 10 years or more at historically low rates of return with no opportunity for appreciation. The buffet of bonds available during the credit crisis has been eliminated as the fixed income markets have normalized with supply and demand in balance. We would actually suggest, from available inventory and current rates, that the market is a bit too positive on bonds at the moment. We believe the market will offer far better opportunities in the future for longer term bond investors. We continue to expand our use of alternate income vehicles offering higher yields and improved capital appreciation potential for our income oriented investors. These securities include stable high yield equities, MLPs and convertible preferreds. We will maintain a flexible strategy without complacency in our assessment of risk.

As always, protection of investor's principal is our paramount concern. ❖

Equity Market Statistics as of December 31, 2009

<i>Index</i>	<i>4th Quarter</i>	<i>YTD</i>
DJ	8.10%	22.68%
S&P 500	6.04%	26.46%
NASDAQ	6.91%	43.89%

**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>
2 year	1.14%
5 Year	2.68%
10 Year	3.84%
30 Year	4.64%

Commodities

<i>Commodity</i>	<i>4th Quarter</i>	<i>YTD</i>
Crude Oil	12.39%	77.94%
Natural Gas	15.10%	-.89%
Gold	8.86%	24.36%
Silver	1.38%	48.16%
Copper	18.46%	138.53%
Nickel	3.56%	58.62%
Aluminum	18.37%	45.71%
Wheat	13.52%	-21.18%
Corn	16.19%	-10.67%