



March 2, 2010

Dear Valued Client:

Throughout most of February, market fluctuations were dictated by the sovereign debt problems occurring in Greece. Greece is a member of the European Union (EU) and has been plagued by large budget deficits, questionable practices in the collection of government statistics, and labor union strongholds, which in aggregate, have weakened the country economically. While it remains unclear how these issues will ultimately be resolved, we expect that the EU will provide some form of financial support to Greece so that market confidence can be restored. Problems in Greece point to a broader discussion about to what degree nations can solve their debt problems by creating more debt. Additionally, who or what is the safety net for society when governments, not just private corporations, enter financial difficulty? Those are difficult questions that we are not immediately worried about, but are reflecting upon given where our economy, its policies, and its future obligations stand today. We believe the best medicine for an economy struggling with debt and demand constraints is a return to sustainable economic growth, combined with fiscal discipline in how tax dollars are spent. The events transpiring in Greece this month gave global debt investors a poignant reminder that some government debt may not be as bulletproof in terms of safety as they once thought, which means that over the long-term, whether in weakness or in strength, long-term interest rates are likely to move higher.

Year to date, the markets continue to be about flat with where they ended 2009, with the Dow, S&P, & NASDAQ up .28%, .40%, & .19%, respectively. From our vantage point, the equity market looks to be about fairly valued, given the level of interest rates, earnings, and valuations. Given this outlook, we don't foresee a sizable move to the upside or the downside, but we would not be surprised by a 5-10% pullback at some point in 2010 as earnings/economic growth could fall short of expectations. As we've mentioned in the previous letters, many of the factors that contributed to recent economic growth were due to temporary factors that were not recurring in nature, like cost reduction efforts, inventory replenishment, and unprecedented government intervention within the credit markets. It will be interesting to see how the economy performs in the 2nd, 3rd, & 4th quarters of 2010 once these temporary factors have abated.

As most of our clients know, the market doesn't always move in unison, so although we are neutral about the market as a whole, we do think there are a select number of companies that look attractive. For those clients with individual stock allocations, we took some initial positions in a couple different companies last month. While these businesses we acquired were not at the fire sale prices we saw in early 2009, we do think our investment should provide investors with an attractive absolute return over time. Most of these positions were purchased shortly after these companies reported their quarterly results, which happened to disappoint the investment community, and in turn, caused their prices to drop.



In many cases, the investors who decided to sell were speculators with short time horizons who were simply “renting” the stock. We are thankful to these speculators and short term investors because they are the ones who allow patient, long-term investors like us to purchase shares of quality businesses at attractive prices. Since we are not overly concerned with short-term investment performance, we don’t have to pay so much attention to short-term earnings results. This allows us to focus more on the enduring factors that really drive long-term business value, like strengthening the competitive position of the company and investing capital intelligently to create value-added returns. If those two factors are happening and if the company is purchased at an attractive price, growth will tend to take care of itself over time.

As always, we thank you for the trust you’ve placed in us.

The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stocks weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of US equity performance.

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Diversification can be thought of as spreading your investment dollars into various asset classes to add balance to your portfolio. Although it doesn’t guarantee a profit, it may be able to reduce the volatility of your portfolio.