



Fourth Quarter 2009 Summary & Commentary

The Decade of the 2000s is Behind Us

As we end 2009 and approach 2010, the decade just ended will go down in history for many reasons. The economy survived three body blows in the form of the tech, real estate, and most recently, the credit bubble. We have learned to live with new geopolitical risks and have lived through the terrorist attack on September 11, 2001. The United States has fought a war in Iraq and Afghanistan during this decade. Finally, we have seen firsthand corporate and individual scandal that will not be forgotten soon. We came to realize that large companies like Enron and Worldcom and the mortgage and financial industries were not above fraud. We were introduced to the likes of Dennis Koslowski, Bernie Ebbers, Elliot Spitzer and most recently a famous golfer named Woods.

The 2000s decade saw U.S. Gross Domestic Product (GDP) grow at a 1.7% average annual rate. This ranks as the worst decade since the 1950s and is about half the historical average of 3.3%. Inflation has steadily declined since the 1970s as globalization and increased productivity have reduced pricing pressures. Inflation during the 2000s was the lowest since the 1960s and 2009 was the first deflationary period since the 1950s. During the 2000s, the S&P 500 had its worst return (-0.9%) since the 1930s. Bond yields continued to decrease through the 2000 decade and bonds posted an above average annual return for the decade of 6.0%. The emerging markets robust growth helped the global economy to expand. Commodities performance averaged 6.3% per year during the decade due to positive demand. Finally, the dollar declined during the decade at an annual rate of 2.7% due to our rising fiscal and trade deficits, slow economic growth and falling interest rates. The U.S dollar was still continued to be viewed as a "safe haven" currency as it appreciated during times of crisis such as the tech and real estate bubbles.

Economic Review

As 2009 started, we witnessed a record financial intervention effort that was global and synchronized in its effort to pump massive amounts of liquidity into a global financial system that seemed to be on the brink of failure. It now appears that the system is on the mend and no longer in the emergency room. With the benefit of hindsight, we now know the stock market reached a bottom on March 9, 2009, and the most significant recession we have seen since the Great Depression ended in Q3. The massive intervention in the United States financial system by the Federal Reserve and Treasury Department have kept interest rates low and fueled a rally in risky assets such as high yield bonds; smaller, more poorly capitalized stocks, and metals and commodities. The S&P 500 ended the year up 26.5% (including reinvested dividends). This was the second best performance of the decade; however it was a low quality rally off the March lows. For example, 49 stocks in the index gained at least 100%, 81 stocks gained at least 75% and 146 gained at least 50%. The small cap Russell 2000 had its best year since 2003. The international markets provided solid returns and the emerging markets had significant gains during the year. High Yield bonds performed best among fixed income assets; while investment grade corporate bonds and treasury inflation protected securities (TIPS) performed well.

Review of 4th Quarter 2009

Index	Q4 Performance %	2009 Performance %	Description
Dow Jones Industrials	8.1%	22.6%	Large Cap Stocks
S&P 500 Index	6.0%	26.5%	Large Cap Stocks
NASDAQ Composite	6.9%	43.9%	Large Cap Tech Stocks
Russell 1000 Growth	7.9%	37.2%	Large Cap Growth Stocks
Russell 1000 Value	4.2%	19.7%	Large Cap Value Stocks
Russell 2000 Growth	4.1%	34.5%	Small Cap Growth Stocks
Russell 2000 Value	3.6%	20.6%	Small Cap Value Stocks
MSCI EAFE	2.2%	32.5%	Europe/ Australasia/ Far East
MSCI Emerging Markets Equity	8.6%	79.0%	Emerging Markets
Barclays U.S. T-Bill: 3 Month	0.0%	0.2%	Short-Term Bonds
Barclays U.S. Aggregate Bond	0.2%	5.9%	US Government Bonds

Things Continue to Improve

Continuing economic reports point to a slow growing economic recovery with some headwinds. While things certainly feel better than last March (it would be hard not to), there are still many factors facing the global economy. Thus, we are still somewhat reserved in our assessment of the recovery and feel we are facing a year of some uncertainty.

The rallies in the equity and fixed income markets have had positive effects on consumer's balance sheets and created some "wealth recovery." This could have a positive impact on consumer spending. Reports from the Institute of Supply Management indicate economic expansion. The global recovery continues to expand with U.S. exports up at a 17% annualized rate; purchasing managers in Italy, Germany and France all reporting positive growth and manufacturing in Britain rising at its highest pace in 2+ years. Emerging markets continue to grow and their demand for our products has had a positive impact on our exports. The inventory rebuild in the United States continues and new factory orders and durable and non-durable orders all rose in December. Capital expenditure forecasts and leading economic indicators are all registering continued increases. Approximately 25% of government stimulus spending has been utilized in the US and globally. The majority of the remaining stimulus spending will be in 2010. We still see large amount of liquidity on the sidelines and this could have continued support for the equity markets as these low return cash assets look for a new home. Company earnings are up and they are maintaining their profit margins through cost cutting and increased productivity. Inflation appears to remain relatively low as demand conditions and labor costs are not increasing. Additionally, much of the Federal Reserve's credit expansion has not resulted in money supply growth (banks are not lending), something that is a catalyst for inflation. We have seen a strong increase in the hiring of temporary workers over the past few months. This is normally a leading indicator to more permanent hiring and a reduction in unemployment.

We Still Have Some Headwinds

In spite of these indications of global and domestic recovery, we still see some significant headwinds for the investment markets and the economy. In order for the economy to continue to expand and employment to increase, credit needs to flow. The financial sector is in much better condition than it was a year ago but is still not fully recuperated. Banks continue to repair their balance sheets and increase their reserves, and in the process, limit their lending activities. It appears that the government program of purchasing mortgages will end in March and the Fed could begin to raise rates in the second half of 2010.

Proposed government policies in health care, global warming, financial reform and taxation have created hesitation among small business and their expansion plans. Small business creates 65-70% of labor market growth. We have a stubbornly high unemployment rate of 10% and a discouraged/underemployed rate in excess of 17%. The average work week is currently 33 hours and capacity utilization is at 72%. This is 11% below historical averages and shows slack in the

economy. 4.2 million people lost their jobs in 2009 and 7.2 million are out of work since the beginning of the recession. With weak lending to small business and government policies creating hesitation in their expansion plans and existing slack in the economy, we see little improvement in the unemployment rate and more evidence of a “jobless recovery.”

Real estate continues to pose challenges to the economic recovery. Residential real estate values appear to be staying depressed for some time due to foreclosure and short sales and high unemployment. Negative housing equity has a depressing effect on consumer wealth and ultimately consumer spending. As the consumer continues to deleverage, they reduce debt and increase savings, both positives for the economy long term. In the short term, consumer deleveraging contributes to reduced consumer spending. It appears that the commercial real estate contraction will continue into 2010 and have a negative effect on bank balance sheets and new lending activities.

Interest rates will drift higher once the Fed is confident in the recovery. Short term rates will rise based upon expected or actual Fed moves. We will see longer term rates rise as a combination of corporate and government issuance increases and the Fed continues to tighten. Increasing bond yields could have an adverse effect on the stock market, the housing market and mortgage rates, and consumer and business borrowing rates.

An aging population and demographic shifts pose additional challenges to the economy longer term. Social Security and Medicare both face benefit/funding imbalances. Many public and private pensions and retiree healthcare plans are underfunded dramatically and will face additional funding requirements or benefit cuts.

Finally, we are facing increased taxes and fees on the federal, state, county and city levels as these entities struggle to balance their budgets. This will take place over the next several years at a time when the economic recovery is still fragile.

What Does This Mean for 2010?

We believe the economy will continue to grow because of the government stimulus still to be spent this year, capital expenditure increases, the continued re-stocking of inventories and strong U.S. exports.

Longer term, we have concerns due to large and growing government deficits, higher interest rates and higher taxes.

We continue to be somewhat conservative in client portfolios. If you have new money to invest, we would recommend a Dollar Cost Averaging discipline due to some of the uncertainties we see ahead. The markets have experienced a lower quality, higher beta and more poorly capitalized stock and lower quality bond rally off the March lows. For 2010, we favor the following investment themes:

Fixed Income Please see Appendix A for fixed income definitions.

We may be facing higher interest rates due to a swelling Federal deficit; a need to withdraw the massive liquidity injection pumped into the economy over the last year and the possibility of fund flows out of bonds and into equities. We think high yield bonds should still perform well in the short term. Please note that high yield bonds have lower credit and higher risk therefore are not suitable for all investors. We favor these securities and investment grade corporate bonds. We like short to intermediate term bonds over longer term bonds to help mitigate the interest rate risks we may be facing. In tax free municipal bonds, we favor General Obligation (GO) bonds. GO bond defaults are rare, and state governments, in general, cannot declare bankruptcy. With some states issuing Build America bonds in place of state municipal bonds and the prospect of rising taxes, we further believe there may be a supply/demand imbalance that will favor tax free municipal bonds.

Equities Please see Appendix A for equity definitions.

Overall, we have a slight preference to equities over bonds, but would recommend a risk reduction in both. On a regional allocation, we prefer the United States to other developed economies. Emerging market equities still show strong growth potential due to commodity demand and a growing middle class of consumers. We have a slight preference to larger capitalization stocks over mid and small cap stocks due to their strong advance since March. Since we expect a

continuing recovery with some headwinds, we believe a rotation to higher quality, larger cap companies with significant global exposure, strong balance sheets, predictable earnings and consistent dividend yields make sense at this time.

Alternative Asset Classes

We continue to see upward pressure on demand and prices of agricultural, oil, natural, gas, metals and other commodities. Even though inflation still appears to be in check, we believe longer term, inflation could be an issue and we need to include these asset classes in portfolio construction. These asset classes are appropriate as inflation hedges and as we see supply/demand imbalances with global growth.

Summary

As this recovery continues to move forward, we see growth with some significant headwinds and uncertainties that cannot be ignored. Prudently structuring your investment portfolios to address these headwinds and uncertainties is but one component of our mission in working with our clients.

We want to thank you again for the opportunity to serve you and your families and to have the chance to work with you.

Please contact us with any questions or comments you have regarding your personal situation.

Best Wishes!

Accounting, legal and reporting practices in foreign countries may be different than in the U.S. Potential political or economical instability presents risks, as does the fluctuation in currency exchange rates, as well as the possible imposition of exchange control regulation or currency restrictions that could prevent the conversion of local currencies into U.S. dollars.

The unmanaged indexes represent general markets and are for illustrative purposes only. They do not reflect the performance of any security. One cannot invest directly in an index.

This commentary should not be considered individual investment advice; you should consider your individual investment objectives and risk tolerances as well as meeting with your financial professional before making any financial decisions.

Appendix A

Fixed Income Definitions

High Yield Bonds - Also known as "junk bonds." A high paying bond with a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds. Because of the higher risk of default, these bonds pay a higher yield than investment grade bonds. Based on the two main credit rating agencies, high-yield bonds carry a rating of 'BBB' or lower from S&P, and 'Baa' or lower from Moody's.

Investment-Grade Bonds - "Investment Grade" is a rating that indicates that a municipal or corporate bond has a relatively low risk of default. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade.

Municipal Bonds - Also known as a "muni." A debt security issued by a state, municipality or county to finance its capital expenditures. Municipal bonds are exempt from federal taxes and from most state and local taxes, especially if you live in the state in which the bond is issued.

General Obligation (GO) Bonds - A municipal bond backed by the credit and "taxing power" of the issuing jurisdiction rather than the revenue from a given project.

Build America Bonds (BABs) - Taxable municipal bonds that feature tax credits and/or federal subsidies for bondholders and state and local government bond issuers. Build America Bonds (BABs) were introduced in 2009 as part of President Obama's American Recovery and Reinvestment Act to create jobs and stimulate the economy. BABs attempt to achieve this by lowering the cost of borrowing for state and local governments in financing new projects.

Understanding Bond Prices and Interest Rates

Bonds provide an element of stability that offsets some of the volatility of stocks. However, they are vulnerable to economic changes that can undermine their value.

The biggest economic threat to bonds is rising interest rates. If you own a bond and interest rates go up, the value of your bond on the open market, with few exceptions, will go down.

Of course, if you plan to hold the bond to maturity the value of your bond doesn't change because interest rates change. You'll still get the amount promise when you bought the bond, all other things being equal.

Equity Definitions

Emerging Markets - A nation's economy that is progressing toward becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body.

Emerging markets generally do not have the level of market efficiency and strict standards in accounting and securities regulation to be on par with advanced economies (such as the United States, Europe and Japan), but emerging markets will typically have a physical financial infrastructure including banks, a stock exchange and a unified currency.

Large Cap Stocks - A term used by the investment community to refer to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization." Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Mid Cap Stocks - A company with a market capitalization between \$2 and \$10 billion, which is calculated by multiplying the number of a company's shares outstanding by its stock price. Mid cap is an abbreviation for the term "middle capitalization".

Small Cap Stocks - Refers to stocks with a relatively small market capitalization. The definition of small cap can vary among brokerages, but generally it is a company with a market capitalization of between \$300 million and \$2 billion.