



QUARTERLY INVESTMENT REPORT December 31, 2009

Dear Investor:

It is time to say farewell to 2009. **The tone of much of the year was one of fear** as the bear market, which began October 9, 2007, didn't quit until March 9th 2009. Those 17 months, witnessing a 57% decline in domestic stock prices, proved to be the second deepest bear market in the past 80 years. Though the market is still 29% off its October 2007 peak, it has performed admirably in 2009, gaining 26%.

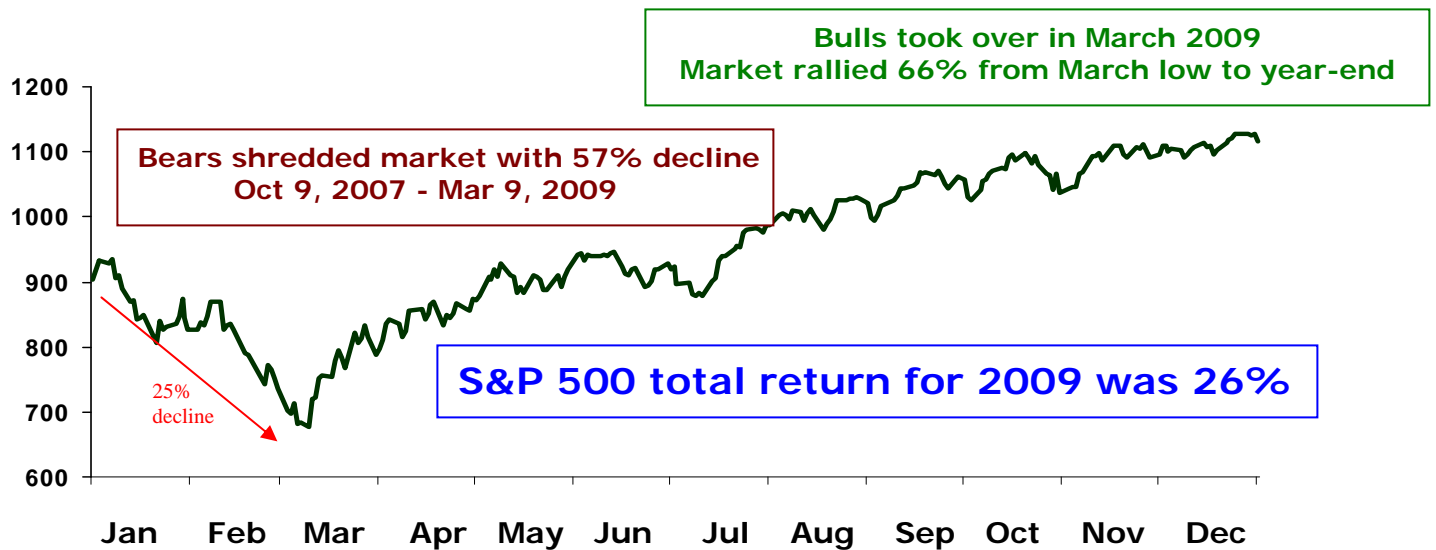
The year was marked by capital infusions, bailouts, stress tests, frozen credit, bank failures (148 in 2009 and 26 in 2008), anti-Wall Street backlash, record federal deficits, corporate cost-cutting, home foreclosures and job losses. By the second half of the year investors started to breathe easier and believe that the 2008 recession wasn't going to double-dip into a deeper recession in 2009.

The healing process was shaky but by the 4th quarter the numbers became more convincing. Retail sales, manufacturing, business inventories, and housing data all remained anemic through the year but the data began indicating some real, albeit small, improvement. **The GDP numbers currently tell us that the recession that began December 2007 will likely be considered ended by the end of the second quarter 2009.** Economists expect GDP growth to reach 2.6% in 2010.

Recovery is certainly not a fait accompli. The economy continues to be a hardship for so many people struggling with unemployment. While the official unemployment numbers reached 10.2%, the real numbers hover closer to 25% as many have stopped looking for jobs and many have settled for temporary work away from their typical occupations. **Companies remain incredibly cautious; they are risk averse, lean and fearful of spending to expand production and build up inventories. Additionally, banks have yet to prove that they are ready and willing to lend again.** Businesses began increasing their inventories slightly in October; that was after 13 months of consecutive decline. Hopefully that will prove to have been the beginning of a new phase in the business cycle where businesses begin restocking their shelves and kick-start manufacturing and job creation.

On the next page we highlight 2009's stock market moves and influential headlines.

Stock Market 2009 (S&P 500)



2009 Major Headlines

- Jan:** Global manufacturing tumbled. Bank of America got billions in bailout aid. President Barack Obama was inaugurated.
- Feb:** House & Senate agreed on \$789 billion stimulus (first-time home buyer tax credit is included). The 4th quarter 2008 GDP numbers showed that the economy shrank 6.2% (weakest since 1982).
- Mar:** Geithner announced public-private plan to buy bank debt. Federal Reserve decided to pump \$1 trillion into the economy by buying treasury and mortgage debt (quantitative easing).
- Apr:** Housing & manufacturing data got a little more optimistic. Goldman Sachs sold shares to repay TARP. Chrysler filed for bankruptcy.
- May:** Government enforced stress tests showed that banks needed less cash.
- June:** Ten major banks repaid TARP funds. Bernard Madoff got 150-year prison term. GM filed for bankruptcy. Fiat took over Chrysler.
- July:** Manufacturing improved, signaling that the recession was beginning to end. Cash for Clunkers rebate program. Government bailed out GM.
- Aug:** Existing home sales grew 7.2% (highest level in two years). Bernanke was named to a second term.
- Sept:** The official unemployment rate rose to 9.7%. Fed said the economy was stable or improving in most of the country.
- Oct:** Dow crossed 10,000. Business inventories turned slightly positive. Results for 3rd quarter corporate earnings were better than expected.
- Nov:** The official unemployment rate rose to 10.2%. The economy saw stronger than expected retail sales & housing data. Dubai World announced the need to restructure \$26 billion of debt.
- Dec:** Citigroup & Wells Fargo repaid TARP funds. The House approved a Financial Reform Bill (Senate to work on its bill in 2010). House & Senate each passed Health Care Bills (to be conferenced in 2010).

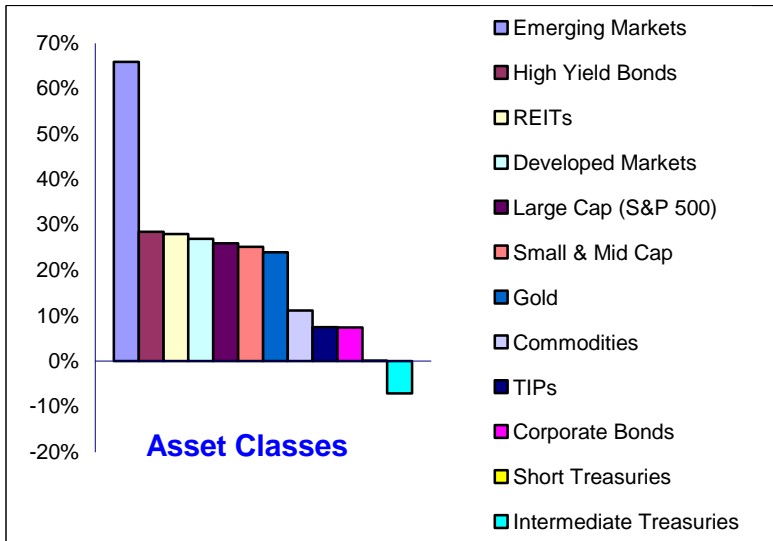
Asset Class Performance 2009

Emerging Market Stocks take the prize!

While consumers and companies stayed hunkered down in their aversion to risk, investors felt comfortable to buy up risky assets. It's no great surprise that the biggest loser in 2008, emerging markets, grew the fastest in 2009.

Gold continued to shine in 2009 though nowhere near its breakout performance of 2007. It's also no great surprise that the best asset class of 2008, treasury bonds, performed the poorest this year, which is a function of investors leaving the safety of Treasuries for riskier assets and potentially higher returns.

Assets typically overshoot their underlying value in both directions, and investors ultimately buy or sell to recalibrate prices closer to fundamental value.

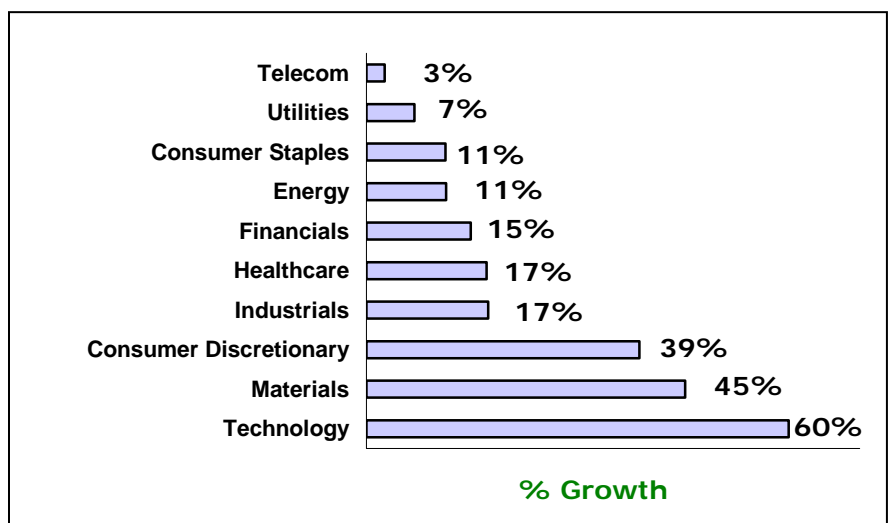


S&P 500 Performance 2009

Most economically sensitive sectors performed best.

In anticipation of an end to the recession and the beginnings of economic recovery investors saw value across the board.

Those economically sensitive sectors that fared the worst in 2008 had the best returns in 2009.



What's Ahead for 2010?

We believe the **domestic stock market will continue to rise in 2010**. However, since we were surprised by the strength of the rally off the March lows and the fact that there was no meaningful correction along the way, we expect a considerable amount of volatility in 2010. We believe the economy is improving and that companies will begin hiring again by mid-year. **We see three forces driving stocks up: economic recovery (jobs, consumer spending, lending), investment returns (low income returns from fixed income securities), and investor sentiment (most investors still don't trust the market and that will change).**

There is value to be found in stocks in every economic sector but we think **money flows will favor Technology, Healthcare, Energy, and Consumer Cyclical stocks the most**.

A few investment themes are:

Technology: new business investment and novel developments such as cloud computing.

Healthcare: post reform relief and increased population coverage.

Energy: economic recovery and alternative energy sources still years away.

Consumer Cyclical: job recovery and improved consumer confidence.

We have always advocated that a healthy portion of all investor portfolios, regardless of age, should be allocated to bonds, and that hasn't changed even though we do not expect much from bond returns in 2010. Our bond holdings will include short and intermediate-term maturities of high quality corporate bonds, Treasury-Inflation Protected bonds (TIPS), treasury bonds and municipal bonds.

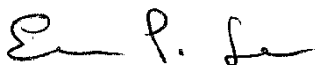
In 2010 we plan to increase our allocations to emerging market stocks as we expect to see countries in Asia and Latin America experience faster growth than developed ones. Though we believe the dollar will strengthen a little in the coming year, commodities, especially agricultural based ones, should continue to do well. We do not expect gold to outperform stocks in 2010.

Having said all of the above, we can always expect the unexpected and we continue to maintain a healthy skepticism and vigilance towards managing risk.

One final note about the last decade: media reports state that the market declined 24% over the past decade. That ignores dividends. The cumulative total return (price change plus dividends) over the last decade was a decline of 9%, which is not good but is significantly better than 24%. Furthermore, the average annual total return for each of the last ten years was .12% or virtually flat each year.

We wish you a happy, healthy and prosperous 2010!

Sincerely,



Ellen P. Le, CFA
President