January 15, 2009

Dear Clients and Friends,

"The economic and technological triumphs of the past few years have not solved as many problems as we thought they would, and, in fact, have brought us new problems we did not foresee"
- Henry Ford II

"Once upon a time" financial industry regulations and oversight of the United States securities industry allowed investors reasonable transparency and knowledge of the risks they were taking. As regulations and oversight were relaxed in recent years, based on the overseers' mistaken belief in technological innovations in the financial marketplace, opacity replaced transparency and hidden risks multiplied.

We enter 2009 more mortal. The selfish gene, known in the middle ages as original sin, has had the run of the field for too long. When I was young, I would often ask my father if I "could" participate in some endeavor; his answer was often "Yes Susan, you can, *but you may not*." It is time for a return to regulation, disclosure and simplicity. We are not abandoning our belief in free market principles; rather, we embrace the foundation of regulations put in place over seven decades ago: to protect investors, and to maintain fair, orderly and efficient markets.

We will soon have a new President expected to begin his term with a broad economic stimulus plan. The Chairman of the Federal Reserve has spent much of his career studying how to avoid economic depressions, and is putting his knowledge into action in unprecedented ways. We have a Congress seemingly committed to understanding what has gone wrong, and has pledged to fix the financial system (though we readily acknowledge that the mess is partly their doing.) We are also helped by the fact that every other nation around the globe is facing similar economic problems; it levels the playing field and makes cooperation more likely.

Policies that are evolving include:

- Dropping the interest rate on short-term Treasury securities to close to zero, in an effort to get money moving through the system
- Buying mortgage bonds with the goal of lowering the 30-year mortgage rate towards 4.5%
- Printing money; or rather issuing more debt (which is government-speak for printing money)
- Making sweeping changes in the staffing and policy of regulatory agencies.

At the current time many investors have parked significant amounts of their investment resources in money market funds and Treasuries. Trust will return and as it does, possibly in the second half of 2009, investors will look across the valley of recession to the light on the other side. We are now seeing yields decline on corporate bonds, a sign that money has begun flowing to investment-grade debt. This is often the first part of the investment cycle, with equities benefiting later on.

We thus enter 2009 with a "barbell" approach to the markets: buying high-quality bonds and dividend-oriented stocks while we ride out the recession, but also looking to selectively add growth-oriented positions in anticipation of resumed corporate earnings growth. As earnings bottom and the effects of government policy create more liquidity in the credit markets, we will become more aggressive in the markets on your behalf. We are hopeful that by mid-year we will have a clearer view of the earnings outlook.

As always, we look forward to serving your investment needs in 2009. Please recommend our services to any associates, relatives, or friends who you think may benefit from them.

Warm regards,

Susan Fulton