

October 12, 2009

Dear Clients and Prospective Clients:

We have launched our new website and I encourage you to view it. We welcome any comments or suggestions you have. We want our website to be beneficial to our clients and those that may consider becoming clients.

As you know from our quarterly meetings, we are still very cautious about the stock market even though the S&P 500 has gone up 60% from its March 2009 low. Keep in mind that year-to-date the S&P 500 is up 18%, and a typical benchmark of 60% S&P 500/40% BC Aggregate is up 15% through October 9, 2009. We hear about the huge run-up in the stock market on CNBC, but they do not mention January and February 2009 when the world was coming to an end.

It is likely that GDP rose in the 3rd quarter due to Cash for Clunkers and government stimulus. Going forward we are concerned about a pullback in GDP growth and possibly a double dip recession in 2010. The stock market has moved very quickly at an unprecedented pace. Today the trailing P/E multiple on the S&P 500 has expanded a massive 10 points from March lows to stand at 27.6x. Historically the P/E multiple should be around 15x, or almost half of what it is today. The market is overvalued.

Inflation is not a risk at this time because there is no velocity of money (borrowing and spending by the consumer). A big problem still exists and that is the total debt to GDP ratio of 373.4% at the end of the second quarter. The debt is public, private, and consumer debt. This level is unprecedented and creates a problem that has existed only one other time in history. That time was 1933 at the beginning of the Depression. This debt is largely consumer debt and must be paid down before the consumer (who is 70% of GDP) can start spending money on anything other than basic needs. This could take many years. It will be difficult for GDP to grow without an increase in consumer spending. This translates into low revenue for companies, low profits and a low stock market if it works the way it has historically.

Our model portfolio is still 20% stocks and 80% bonds. The stock managers have performed very well relative to their benchmarks and our primary fixed income manager, PIMCO, is up 12.5% year-to-date. Preliminary year-to-date performance for our model portfolio is 16%. We look forward to seeing you at our next meeting.

Jamison Monroe, CIMA[®]
Chairman & CEO
Director of Corporate Values