January 1, 2010

INVESTMENT STRATEGY OVERVIEW

The stock market exited 2009 with good momentum and optimism. We enter 2010 with an open mind as the market still faces challenges on the fundamental, technical, and political fronts.

	Value	December	3 Months	2010 YTD
DJIA	10428.05	+ 0.8%	+ 7.4%	+ 18.8%
S&P 500	1115.10	+ 1.8%	+ 5.5%	+ 23.5%
NASDAQ Comp.	2269.15	+ 5.8%	+ 6.9%	+ 43.9%
Value Line 1700	308.97	+ 6.6%	+ 3.4%	+ 36.8%
Russell 2000	625.39	+ 7.9%	+ 3.5%	+ 25.2%

Notes: S&P 500 and DJIA Index returns exclude reinvested dividends.
Source: Thomson Reuters Baseline

The market averages continued to rally in the fourth quarter as the various indexes closed near twelve month highs. The returns were impressive, especially when you consider the advance from the March lows exceeded 60%. The rally was propelled by the evidence that the economy was not in a free fall, credit markets were improving, and the Federal Reserve and the Government were taking whatever steps necessary to restore confidence in the U.S. economy. The actions in the U.S. were matched by major central banks and governments all over the world to shore up confidence and begin returning the global economy to normalcy.

As we moved into the fourth quarter the perception emerged that the worst of the financial crisis was behind the nation. Although profits were declining, the rate of profit deterioration slowed. The only real disappointment was in the growing ranks of unemployed, as unemployment moved above 10.0%. The events shaping the economy have been viewed positively by investors who continued to invest cash in both stocks and bonds.

The dollar continued to weaken through out most of 2009. The weakness sparked interest in the carry trade, where investors shorted the dollar and went long stocks. The financial commentators were heard saying, as long as the dollar goes down stocks will continue to move higher. While over the short term this may be true, at some point the weakness in the currency will eventually overwhelm the market. In addition to the weak dollar, we continued to see a rebound in commodity prices, and a strong upward move in gold. The gold move is seen as means to protecting assets from the potential of higher inflation.

The third quarter GDP was revised downward to 2.2%. The positive reading was the first in several quarters, and for many, marked the end of the recession. We will not have the official government call of the end to the recession for sometime. The growth in the quarter was aided by the stimulus package, the “cash for clunkers” program and the first time home buyer $8,000 tax credit. The final quarter appears to have ended on a moderately stronger note as consumer spending grew slightly more than originally expected by the economists.

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Corporate profits are expected to rise in the fourth quarter. The first positive comparison in nine quarters mostly because 2008's fourth quarter was especially weak. For 2009, S&P 500 earnings are expected to decline 15%, while dividends on the index have fallen 21%. We expect earnings to improve next year as cost controls have been successful and top line revenue growth should return. Revenue growth will improve profitability as benefits of cost containment have largely been achieved.

The efforts by the Obama administration to reform Health Care have proven more difficult and more time consuming than they had hoped. It appears as if the Health Care bill will pass in some form in early 2010.

Stock Market Outlook/Strategy

The stock market finished 2009 with another positive month. The S&P ended the year at 1115 while the DJIA and NASDAQ finished at 10428 and 2269 respectively. Heading into the fourth quarter we believed the markets would experience some profit taking and that occurred mostly in November. Once the markets pulled back there were plenty of bull market optimists to pick up the slack and move the markets higher. Our outlook for 2010 is probably best described as skeptical. First, the markets have been rallying for most of the last nine months of 2009. As stated earlier, most of the averages are up over 60% from the March lows. That's a significant move. It's not unusual to see a 10% - 15% correction after such a big move. Second, the Fed has in place the removal of certain economic support programs for early 2010. Third, the still elevated unemployment rate should keep an overhang on the market. Fourth, historically the markets tend to struggle in the mid-term election years, especially with first term presidents.

During the fourth quarter we made modest changes to the portfolios. We sold FPL Group (FPL) due to what we perceived was limited up side potential We also sold Weatherford Int'l (WFT) because the stock hit a downside target. With the proceeds from the sales we added to existing positions in the portfolios, Fluor Corp. (FLR) and Mosaic Company (MOS).

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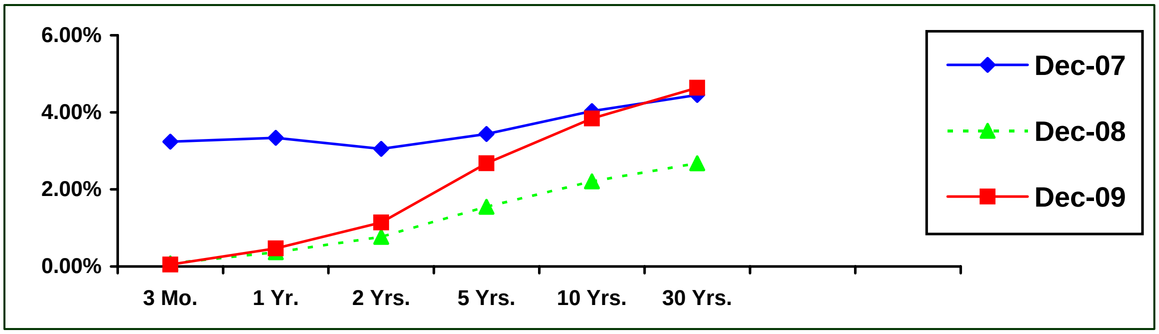
Fixed Income Outlook

The Federal Reserve, as expected, kept Federal Funds Rate in the 0.00% to 0.25% range. The most recent press release from the Federal Open Market Committee (FOMC) reiterated their intention to keep rates "exceptionally low" for an "extended period of time" due to a still weak economy and low inflation expectation. For the first time however, the Fed statement included its plans to withdraw support from the financial system. The increase in yields in 2009 reflects the dramatic increase in supply and growing fear by investors that inflation will be higher in the future. As depicted in the chart below, the yield curve has steepened during the fourth quarter.



	12/31/07	12/31/08	12/31/09	2009 Change
3 Mos.	3.24 %	0.08 %	0.05 %	- 0.03 %
1 Yr.	3.34 %	0.37 %	0.47 %	0.10 %
2 Yrs.	3.05 %	0.77 %	1.14%	0.37 %
5 Yrs.	3.44 %	1.55 %	2.68 %	1.13 %
10 Yrs.	4.03 %	2.21 %	3.84 %	1.63 %
30 Yrs.	4.45 %	2.68 %	4.64 %	1.96 %

Source: Thomson Reuters Baseline

We will continue to be cautious believing that the exit strategy by the Fed will be more difficult to implement and that will allow inflation to rise faster. The crisis we experienced was the worst since the Depression and that led the Fed to create interventions that were larger and more complex than we've ever experienced. In light of what we have gone through we believe it will be much harder to navigate out of the crisis. We continue to be selective in our purchase of bonds and prefer the short to intermediate term maturities.

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