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Greetings,

Enclosed is your investment report through September 30, 2009. Your YTD return is 37.3%. The return of the S&P 500 is 17.0%. One of my goals as your investment adviser is to do well in both absolute terms and relative to the market. I am pleased that I am achieving that goal this year with a return more than twice the broad market.

The worst bear market in 80 years is over. We have gone from the worst bear market since the Great Depression to the strongest bull market that I have ever seen and I have been investing my own money for 24 years. Please keep in mind that just 6 ½ months ago, we were at the market lows. Over that period of time, the stock market has literally gone straight up, with no more than a 3% pull back. I have been waiting for at least a 10% correction for the last two months so that I can put the cash that we have on the sidelines to work. The market in 1995 and 2003 (2003 was the year after the last bear market) was close to being this strong. The S&P 500 and the Nasdaq statistically did better in 1999. The problem was that in 1999, the returns were concentrated solely in tech. stocks and a handful of other high priced growth stocks. If you didn't have most of your money in those few stocks that were moving the market, then you underperformed badly in 1999. This year is much more of a broad market participation, hence our outstanding performance.

What I find truly fascinating (for lack of a better term) is the level of pessimism and outright hatred for this stock market rally. This skepticism is rampant from both highly paid professionals and individuals. Even with this huge run up, cash levels are still close to being at all time highs. I read recently that the amount of cash in money market accounts, CD's and checking accounts is equal to 40% of the total stock market valuation. Many individuals as well as professionals (who are supposed to know better) bailed out of the market either at the market low, or a couple of months before the market hit bottom. Many hedge fund managers this year had to quickly cover their short positions and those who didn't are getting hurt with their short positions and their large cash positions. I think that one of the things that really kept the market moving this summer and prevented the correction that I thought was coming was the hedge funds covering their short positions. From what I hear and read, most of the people talking down the market are those who missed the rally and are looking to get in. Mark Haynes (my favorite CNBC host and a tough interviewer) has said several times on CNBC the last couple of months that he can't understand why so few people will admit that we are now in a Bull Market. Mark Haynes called the market bottom in March. I have never been on CNBC. With the S&P 500 now up for seven consecutive months, I have no problem admitting that we are now in a Bull Market.

Going forward, while I don't expect the stock market (as well as our returns) returns to be anything close to being as strong as it has been the last six months, I do feel that we will continue to do well, at least in the short to medium term. One thing that I have learned the last few months is that just because the market has gone up for 4 or 5 months in a row, it doesn't mean that it can't keep going up. The reason I feel this way is because; we have a combination of abnormally low interest rates (both long term and short term), an economy coming out of a recession (more on that soon), a huge amount of cash on the sidelines (more on that soon), low inflation and corporate earnings that will have some very easy comparisons since the economy began falling off a cliff at this time last year. I should also point out that expectations for corporate earnings are still very low. I believe this will change in the near future when earnings beat expectations and the analysts raise their estimates for next quarter and next year. Please don't get me wrong. I am not trying to make the case that nothing can stop this market from going up. I truly hope that we do get a nice correction. I am just stating that based on everything I pointed out; it would take something unforeseen such as a huge geopolitical event to knock this market down for more than a few weeks. Worse than expected economic data could knock it down for a few days, not more than that.

Several times a year, I attend a dinner hosted by Fidelity Investments, the custodian of our assets. Generally, I find the speaker rarely says anything of real substance. I attend because if once in awhile he does say something interesting, then it is worth my time to be there. Back in the early spring, when things were looking pretty bad, the speaker talked about the huge amount of cash on the sidelines. At that point in time, the total cash was 60% of the total stock market value combined. With the stock market value being 30% or so lower then than now, the total amount of cash is about the same now as then. The speaker talked about a market melt up with all the cash that will eventually come in the stock market. I don't necessarily agree with this premise. I do think that when some individual investors see how much their accounts have risen when they receive their third quarter statements, they will put some of the cash that they have to work in the stock market. The fact that money market accounts yield less than 1% will also be a factor. I think that the institutional investors that are trailing the market (unlike us) will be the main catalyst fueling the year end rally when they put the cash that they are holding into the market. My Dad may not know much about investing but he does know something about human behavior. More than once my Dad has said to me" never underestimate the greed of the American people". I believe that greed will push this market higher in the short to medium term.

The economy continues to be bad. The unemployment rate is now up to 9.8%. This is the highest rate since June 1983 and I believe that it understates how bad things are because people who have given up and left the work force are not counted. I believe that the recession is over. I will know for sure in a couple of months. Even though the recession could be over, with no disrespect to the Moms out there, I expect this to be the Mother of all jobless recoveries. I think that the poor labor market will be a problem for the stock market, just not yet.

In my July 2008 investment letter, I wrote how I was going to invest every dollar from the sale of my co-op (I owned it free and clear) in the stock market. I wrote about this to demonstrate my faith in the market and to show that it was a great time to put new money to work. My closing was the day after Lehman collapsed. The DOW was at 11,500 (aprox.) and going straight down on its way to 6500. I also wrote 2 ½ months before I put the proceeds into my brokerage account that my timing in the past was not always perfect. I was right in that my timing was far from perfect. I was also right to put the proceeds into the market, despite my bad timing, the market collapse and the fact that the market didn't even begin to recover until 6 ½ months later. I will state that it was at the same time both an incredible challenge and a horrifying experience. Fortunately, I did not invest all the cash immediately. Investing at that time was the ultimate in trying to catch a falling knife. I made more trades in one month than the previous year. Quality companies purchased at 52 week lows were plunging 10-15% in one week. At the low, I was down close to 40%. Despite my anxiety, I took the emotion out of my trading and stayed completely focused on buying the best companies that were being totally taken apart. One of my clients at lunch during that time suggested to me that with his account I should take a dull knife and replace it with a sharper knife. That is exactly what I did, not just for his account, but for mine and yours. With the market still down 17% from when I started, my account is now up just over 5% from the day after the Lehman collapse.

Please give me a call or send me an email if you have any questions or if there is anything that you want to discuss.