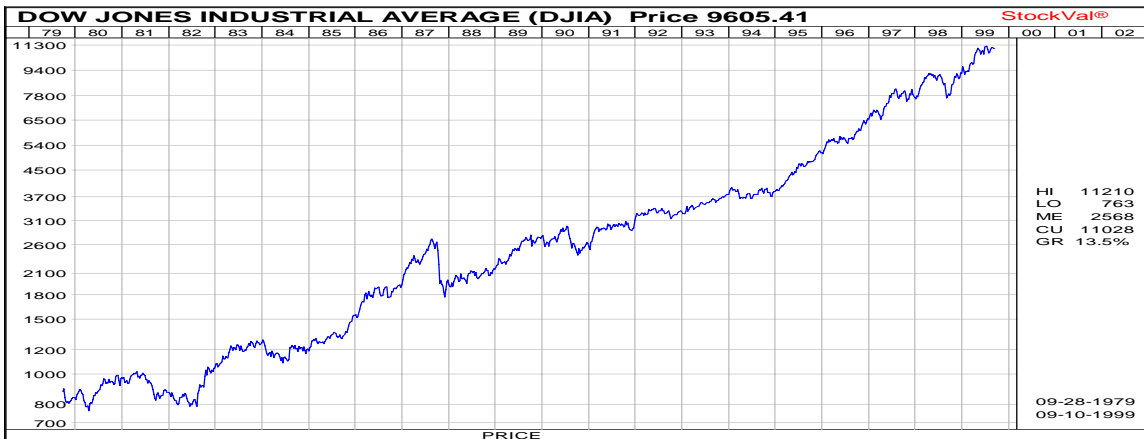




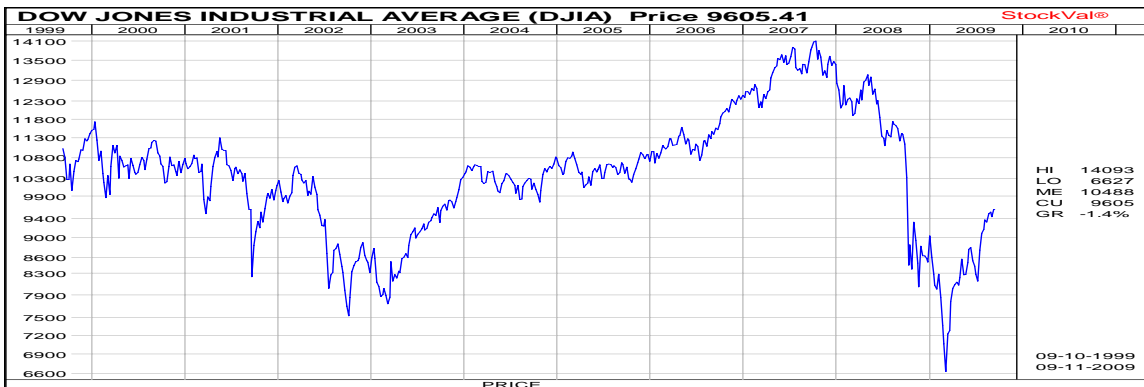
Perhaps a coincidence, it is nevertheless intriguing that the Dow Jones Industrial Average closed September 11th at the same level it closed on the eve of the terrorist attacks eight years ago. This fact drives home to investors that over the last decade investing in the stock market has not been the profitable endeavor it was for the preceding two decades.

Ten years ago, the stock market was making its final push in what had been a 17-year bull market that took the index from below 800 points to above 11,000.



Owning stocks was a one-way decision and everyone had thoughts of early retirement to live off of their nest eggs.

We have already endured a lost decade in equity investing. We have had multiple bubbles burst with technology stocks, housing and credit. The question on investors' minds is how much longer will we have to endure a stock market that seems to be trapped in a seesaw trading pattern, albeit, with violent moves in both directions?



We all breathe a bit easier now that the stock market has recovered 50% from its lows reached in March; however, we are still a long way from the peak in 2007 and below the level of 10-years ago.

It is likely that the stock market has several years remaining within the trading range established over the past decade. To be certain, excesses in our economy still abound and only time can allow these excesses to abate. The largest excess over the past 30 years has been the propensity of families to spend more than they earn. The national savings rate dipped below zero for the first time in our history. Family balance sheets now need to be repaired by increasing savings and reducing spending. This will put a governor on our economy for the foreseeable future and thus, a cap on the stock market.

This does not mean that the market cannot go higher in the short-term; to the contrary, we believe the market has several quarters of growth ahead. Corporations have already shed much of their excesses built up in better times and are now running very lean. This past quarter we saw earnings at many companies far exceed expectations despite dismal revenues. As the economy does recover and revenues grow, we will see significant bottom line (earnings) growth helping the stock market in the near-term.

Our real concern is *what then?* The national deficit has become the number one excess in our economy and the number one concern for the stock market. We should all know that tax increases are coming and corporations will shoulder some of this burden. Corporate earnings will be impacted and stock prices, which have a direct correlation to earnings, will be dampened.

We should also expect increased inflation as a weaker dollar imports inflation from other countries. This is the downside to having our manufacturing outsourced to other countries. The price we pay for goods is translated into dollars from the local currencies of where the manufacturing takes place. For the last several decades, we have been the beneficiary of importing cheaper goods made from cheap labor; this outsourcing has pretty well run its course. Prices will now begin to rise as labor in developing countries demand higher wages at a time when the dollar is under pressure and having a negative translation.

If investors cannot depend on increasing stock prices over the next several years, they can depend on dividends from companies committed to paying them and business models that favor recurring revenues. There are a host of companies that raised their dividends over the past year in the midst of the financial crises. These companies typically have yields of 3% or greater and will be highly valued once the overall stock market ceases to rise. We remain focused on these companies to provide stability and income in the face of a very difficult investing environment.

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