

The third quarter of 2009 was the best quarter for the S&P 500 since the fourth quarter of 1998.

The S&P 500 was up just over 15 percent...a remarkable return by any standard. We are still well below the all time highs however, and over the last ten years the market is basically flat...it is a rare time indeed that one can invest in the stock market when the previous ten years have shown no return. This is one of the reasons I remain in the bullish camp.

The economy is showing signs of bottoming and recovering. Industrial production, retail sales, and housing prices are poised for gains in the quarters ahead. Unemployment is a lagging indicator...it will be the last to turn. While things are clearly not booming and we are still reeling from the worst recession in decades there is reason to be optimistic in my opinion. The Fed is committed to keeping rates low and the liquidity pump primed for an extended period of time. In addition, the impact of the stimulus program has yet to be fully felt. I expect the recovery to be sustainable into 2010 and beyond.

Stock prices are discounting the recovery in economic activity and the concurrent increase in earnings. We are finding great opportunities in the Technology space. As previously discussed, there are several global forces at work which are driving demand for new products and services. Health Care appears washed out as a result of the political rhetoric concerning reform. It is best to be highly selective here yet I am finding great opportunities in stocks where the science is dominant, there is ample growth, and valuations are at historically low levels. Energy continues to be a strong theme in the portfolios. Rapidly expanding emerging economies around the globe need energy and basic materials in order to build out infrastructure. While we have taken profits in certain financial stocks I find that rotation into other subsectors such as real estate is offering opportunity for profits as well as income. In fact, many companies have dividend yields well in excess of the ten year treasury. I find that particularly attractive right now.

The outlook is becoming clearer. Profit expectations are too low and the fixed income markets, particularly treasury securities, are not offering much competition for stocks. I have been expecting a correction in prices which has yet to materialize. Keeping some powder dry, being patient, and taking advantage of opportunities when they arise is the best course of action.

Thank you again for your continued support and please do not hesitate to call or email, [bhutchens@hutchco.net](mailto:bhutchens@hutchco.net) with any questions or concerns. I wish you and your family the best of Holiday Seasons.

Sincerely,

William D Hutchens Jr., CFA