

Happy New Year! 2010 was a good year for the stock market and a great year for your portfolio. The S&P 500 was up 15% and we had great out performance. The investment themes we identified such as global growth and the stocks we picked were rewarded last year.

The long awaited recovery of the US economy is beginning to gain momentum. Money supply growth is now expanding at a 4% annual rate as measured by M2. The producer price index, or PPI, is growing at a 5.6% rate and is a sign of pricing power in the producer side of the economy. The consumer price index, or CPI, is up 1.6%, welcome relief from the deflationary low of -2% in July 2009. These forces are necessary and sufficient to drive the domestic and global economies into Boom Times.

Earnings for the 2200 stocks in our universe were up 49% on average in the last reporting period versus a year ago. Future estimates for 2011 and 2012 will exceed the previous peak. In my opinion the stock market will also make new highs during that time frame.

Sales surprises for the Consumer sector have ticked positive and are notably better than the previous five months. Top line estimates were too high earlier in the year but the consumer has finally caught up and modestly exceeded these expectations. This is a clear sign of recovery and a logical progression as the economy broadens out from lead groups such as Manufacturing.

Sales surprises for the Manufacturing sector have declined modestly to slightly negative. Top line estimates are no longer being exceeded. Our portfolio over weight to this sector has been a big driver of excess return. As the global recovery matures we will be taking profits here.

Sales surprises for the Technology sector continue to be very positive. Tech is our largest overweight and the biggest portion of portfolios. We will maintain and perhaps increase this exposure until the market over compensates us as it did in the bubble around the millennium. A bull market loves glamour growth and these highly profitable and visible companies should really outperform as things heat up the way we anticipate.

In summary, the global economic recovery will translate into Boom Times ahead. The investment themes we discussed in previous correspondence are bearing fruit. Money is starting to flow out of the bond market into the stock market. Income statements and balance sheets are very healthy. Valuations are quite reasonable relative to growth. We will stay close to the numbers and ever diligent to identify new investment opportunities as they develop and to harvest gains as necessary and appropriate.

Wishing you the best for 2011. Please feel free to email or call at any time.

Sincerely,

William D. Hutchens, Jr.
President

WDH/tmt

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