

The Sittenfeld, Stuard & Thornberry Group  
Private Wealth Management

22 July 2009

Dear Client:

Markets remain volatile and the probable success of the recovery plans and package is widely debated. With dramatic plans under consideration for healthcare reform and climate control through cap and trade, investors – and indeed advisors – continue to seek firm footing in this elusive and unprecedented environment. The discouraging market leads to fear of further disappointment. It is reminiscent of the saying that when you finally get enough courage to peek over the fence, you get shot in the eye! For some investors, extreme caution is appropriate if significant cash will be needed in the short term. Those in that situation cannot afford to lose more even if they may miss rallies. But those who have longer time horizons must realize that excessive caution carries attendant risks: inflation along the way being a principal concern.

Interest rates generally have been on the rise since the start of the year with the key 10-year U.S. Treasury moving from 2.2% at year end 2008 to 3.5% at the end of June after settling back from nearing the 4% level. This rate is important because it is often used as a guide to the direction of mortgage rates. In many regions housing price declines have slowed, but the continued surplus of inventories continues to keep pressure on prices. The tax credit for first-time homebuyers along with historically lower mortgage rates has helped the lower-end of the housing market, but more expensive homes continue to languish unsold.

In the second quarter, the equity markets experienced brief but welcome relief from the recent significant decline. It is important to remember that the stock rally we saw from the low point in early March to the peak in early June is not a clear sign of recovery. The rise in stock prices over these three months was based on relatively low volume: demonstrating that many investors remain unconvinced. As we have seen in the past few weeks, economic data “not as dreadful as expected” may not be good enough to lift the markets significantly further.

In this recent rally, there were clear winners and losers. Technology was the strongest sector with the tech-heavy Nasdaq Composite rising 16% in the first half of the year while the more broad-based S&P 500 rose only 3%. Year-to-date the worst performers within the Dow 30 stocks were Caterpillar (down 24%), General Electric (down 25%), and Procter & Gamble (down 16%) contrasted with Microsoft’s rise of 24%, IBM’s gain of 25% and Intel’s increase of 15%.



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Investors believed that hints of an economic recovery had surfaced and felt technology companies would be among the first to benefit. With the return to reality brought on by the disappointing June employment report, some of these trends have started to reverse again. We are reminded that stock prices don't always move in line with current earnings: much is based on expectation of what the future holds.

What prudent investor would have taken the bold move to sell all their holdings, stocks and bonds, in early 2008 and invest solely in cash? Would a wise investor have put all their cash into a handful of technology stocks at the end of the year? While we might wish we were that prescient, those are the kind of gambles that people cannot and indeed should not risk with life savings.

Along with diversification, we believe a comprehensive review of investments as well as plans is warranted and timely. We would be pleased to review your investments here in the context of all of your financial objectives. We continue to believe that stocks with secure and rising dividends are a central component of long-term portfolios. Asset allocation, driven by a blend of goals, time horizon, and risk tolerance is of central importance.

In our effort to continue to provide the best client service experience, we enclose updated information on our team. You will find a short narrative about each team member and his or her role within our group. We have also provided a small card with current contact information.

We very much hope you will call at your convenience to discuss these or any other matters.

Sincerely,

Paul G. Sittenfeld  
Managing Director

Elaina C. Stuard  
Vice President

Jonathan E. Thornberry  
Vice President