

The Sittenfeld, Stuard & Thornberry Group  
Private Wealth Management

20 April 2009

Dear Client:

March 31 marked the end of the sixth straight losing quarter for U.S. stocks: the longest stretch of quarterly declines since 1970. As bailouts and stimulus packages of an unprecedented magnitude began to encourage a modicum of confidence, investors resumed a modest willingness to consider equities. This propelled stocks to bounce from their early March lows. The significant level of cash on the sidelines has helped fuel the recent market move and continues to provide potential for additional upside. The S&P 500 Stock Index reached a low of 666 on March 6, but rallied nearly 20% from that point to end just under 800 on the last day of March. This translated into a loss of 11% for the quarter. The Nasdaq Composite Index fell a modest 3% for the period as buyers anticipated that technology companies with strong balance sheets might be among the early beneficiaries of an economic recovery. Despite the improved tone of the markets in recent weeks, the S&P 500 would have to rise over 97% to return to its all time intraday high reached on October 11, 2007. Estimating corporate earnings has become unusually challenging for analysts in the current economic environment, and corporate results are likely to provide many surprises and continued volatility.

We believe that employment and housing need to stabilize before a sustainable economic recovery can occur. The unemployment rate rose to 8.5% in March: the highest seen since 1983. While jobs continue to be eliminated and work hours cut, the pace at which this has been occurring has stopped accelerating. The housing market is reacting favorably to several factors: the first-time homebuyer tax credits, the drop in mortgage rates, and a reduction in housing inventory. Housing affordability has reached its highest level since it started being monitored nearly 30 years ago. Some real estate markets are starting to see more activity, but even with the likelihood of some improvement in home sales this spring and summer, long-range demographic trends must be considered. With fewer households in their 20s and 30s (the group at the peak of home-buying patterns) compared to a growing number of older households of those in their 70s and beyond (who tend to be sellers of homes), more downward adjustments to housing values may occur.

It's difficult to imagine how the markets will react to the government intervention of recent months since there has never been intervention of this scale before. The sum of all that has either been spent or committed by the Federal Government is almost \$13 trillion. This compares to 2008 estimates of domestic GDP of \$14.2 trillion. The colossal fiscal and monetary programs initiated have provided a lifeline to the economy, but a sustainable resolution will take time when dealing with debt which took a generation to form. As individuals and corporations reconfigure their balance sheets, the economy will slowly adjust to the new paradigm over a long and arduous period. A stock market scenario which is quite plausible is one that bounces back and forth within a range without resuming an extended upward trajectory for a prolonged period.

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The enclosed insert conveys that we have not wavered in our belief that rising dividends are central to a successful long-term balanced investment strategy. You will see that going back to 1972, stocks which increase their dividends have outperformed all other kinds of stocks; including those that keep a flat dividend, those that have cut or eliminated their dividend, and those that do not pay a dividend at all. Sometimes it can be excruciatingly difficult to stick with investments that lose value. We believe firmly that stocks, and specifically dividend growers, remain an important component of a long-term portfolio. Even in extended bear markets, stocks historically have provided protection against the loss of purchasing power during inflationary times compared to fixed income investments. It is critical to choose dependable stocks during uncertain times since dividend income is the most predictable component of portfolio returns. Further, we continue to invest some portion of a portfolio in other asset classes including: small and mid-capitalization stocks; foreign companies; cash; bonds; and certain specialty categories such as gold and water industry opportunities. During a typical market recovery, stocks often rally many months before the economy improves, and often certain categories such as small companies and emerging markets can lead the way. One of the key lessons of the markets over the past year and a half is that investors need to spread risk across and within asset classes.

We are not seeing signs of inflation yet, but the monetary and fiscal stimulus tactics being employed are, by nature, inflationary. It is difficult to determine both the magnitude and timing of when inflation will become an issue because the depth of the economic downturn is severe and the magnitude of governmental intervention is unparalleled. The uncertainty of when inflation will return means that investing in bonds with long maturities involves even greater than normal risk than buying shorter bonds. Investing only in short-term bonds holds some risk as well since short interest rates are at historically low levels and could remain there. Determining the balance of stocks versus bonds in your portfolio is unique to each situation and we can only determine the most optimal mix by regular contact with you.

Rapidly changing economic and market conditions have amplified the importance of meeting regularly with you. We know that your time is valuable and we want to ensure that we are utilizing all of our collective resources to your greatest benefit. For that reason, we have asked Lisa Shaffer on our team to help us coordinate with you on a regularly consistent basis to find convenient times for a meeting or conference call to focus on your portfolio and any other topics you may want to discuss with us. We feel strongly that regular communication will become increasingly important to managing your investments with the most current and relevant information possible.

Please don't hesitate to call or email any of us directly any time.

Sincerely,

Paul G. Sittenfeld  
Managing Director

Elaina C. Stuard  
Vice President

Jonathan E. Thornberry  
Vice President