

Recent Thoughts
January 2010

The fourth quarter marked the end of a tumultuous decade for U.S. stocks. Major market indices finished 2009 below levels registered on December 31, 1999, concluding the worst calendar decade in recorded history for U.S. stocks. The path stocks traveled over the course of the decade was anything but a straight line. In fact, a ten year chart of the S&P 500 takes on the shape of a distorted W (see attached chart). Following the technology induced downturn of 2000, stocks staged a multi-year rally to new highs before ultimately succumbing to the recent housing-related decline. The advance in 2009 completes the W. In between, there were plenty of noteworthy events, including the attack on the World Trade Center, a global war on terrorism, a financial crisis, and a push to institute the largest entitlement program in a generation. It was anything but a dull decade.

Following a rocky start to 2009, during which the S&P 500 lost a quarter of its value over 10 weeks, the market staged a powerful rally over the remainder of the year. The returns for 2009 marked the best annual results for the market since 2003. As had been the case throughout the year, technology stocks once again led the market higher during the quarter. Technology stocks were also the best performing sector for the full year, followed by Materials and Consumer Discretionary stocks. More defensive oriented sectors, such as Utilities and Telecom Services, lagged the overall market. Optimism for continued economic recovery was once again the catalyst for the positive returns during the quarter.

As signs of recovery emerged earlier in the year, the lowest quality and smallest stocks in the S&P 500 led the index to the upside. Many of these companies, whose very existence was in question a few months earlier, surged as the rally took hold. This reversed the trend experienced in 2008 when the most financially sound and largest stocks in the index outperformed. Likewise, as our focus is on high-quality large cap stocks, the forces that benefited our relative performance in 2008 hindered it in 2009.

Third quarter Gross Domestic Product (GDP) posted positive growth of 2.2% following four consecutive quarters of contraction. International economies, such as the Eurozone and Japan, also experienced positive growth of 1.5% and 1.3%, respectively. Other signs of good news include increased inventory levels and positive reports from the Institute for Supply Management's Manufacturing index, both of which show signs of expansion. Economic growth is projected to have accelerated in the fourth quarter and will likely continue growing in 2010, albeit at a slower pace than historically experienced following a severe recession. A slow recovery will keep unemployment at an elevated level for the foreseeable future.

While the staggering monthly job losses experienced at the end of 2008 through the middle of 2009 subsided somewhat as the year progressed, actual job creation remained elusive. The

headline unemployment rate leveled off around 10% at the end of the year, up from 5% at the start of the recession. Over 15 million people were unemployed at the end of the quarter. Add an additional 12 million people who are either involuntary part-time workers or are not actively seeking work for various reasons and the more comprehensive unemployment rate stood at over 17%.

The housing market has shown some signs of stabilization. A flurry of buyers rushing to qualify for the First-Time Homebuyer Tax Credit, combined with record low mortgage rates and distressed home sales, fueled much of the activity late in the year. The Federal Reserve's purchase of just under \$1 trillion (out of a \$1.25 trillion commitment) in mortgage-backed securities has helped keep rates low. Homebuilders and potential homebuyers fear that when the Fed completes its planned purchases later this spring, mortgage rates will rise and the recovery will stall.

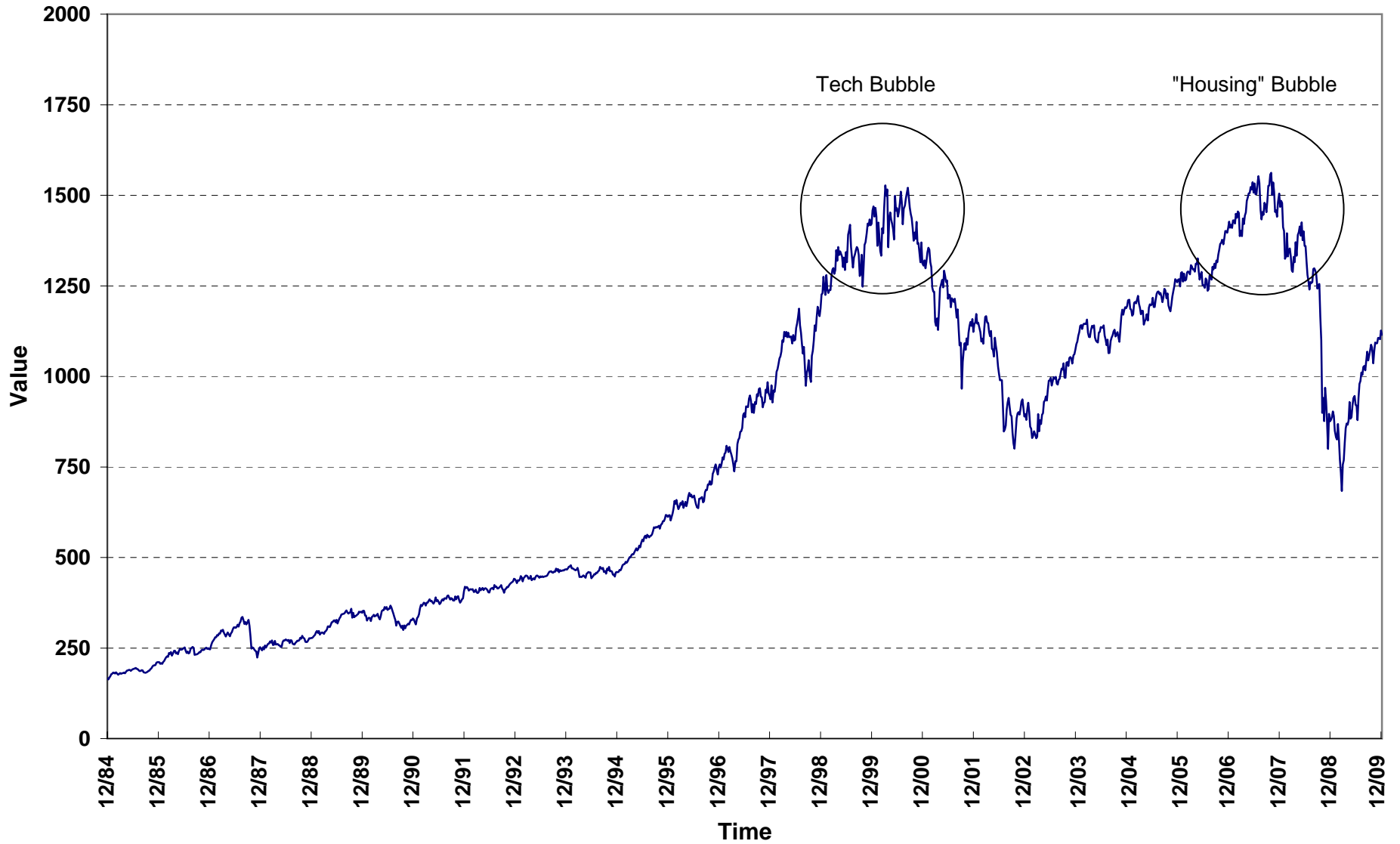
As we begin a new decade, the mood is quite different from that which prevailed at the start of the previous decade. The 2000s were ushered in on the heels of a decade in which the S&P 500 had quadrupled and high double-digit returns were expected to be the new norm. An era of technological innovation was underway and the U.S. had just registered its first annual budget surpluses in a generation. Stock valuations no longer seemed to matter. Euphoria reigned. Contrast that with the dawn of this decade. Some investors have abandoned stocks altogether following the gut wrenching declines of 2008 and 2009. The combination of a banking crisis, persistent joblessness and projections for unsustainable budget deficits pushed investors to the depths of despair in March 2009. Although sentiment has improved dramatically since last spring, the long-term outlook for most is still relatively subdued.

The period from the late-nineties through 2009 provides a perfect illustration of the ever present forces of euphoria and despair that exist in investing. Similarly, it illustrates how drastically reality can diverge from the consensus outlook. It is very likely that when we reconvene in 2020 to recap the previous decade, the path the economy and stock market will have traveled will bear little resemblance to the current consensus projections. We believe it is highly unlikely that the worst decade in terms of stock market performance in history will be followed by a consecutive decade of dismal returns. A well defined investment plan, consistent with your financial needs and independent of the prevailing sentiment, will remain integral to realizing your long-term financial goals.

**SUITE 760
2100 RIVEREDGE PARKWAY, N.W.
ATLANTA, GEORGIA 30328
TELEPHONE: (770) 988-9556
FAX: (770) 988-9378
INTERNET: www.EadsHeald.com**

S&P 500 Weekly Close

Through December 31, 2009



— S&P 500 Weekly Close