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We hope you and your family are having a great summer. In light of the difficult economic environment we thought it might be helpful to provide you with an update regarding the current market environment and our investment strategy.

Unfortunately, our country remains in the longest recession since the 1930's. Unemployment increased by 1.2 million last quarter and now stands at 9.5%. The number of underemployed, which includes unemployed and part-time workers seeking full-time employment, is 16.9%. Since December 2007 7.2 million jobs have been lost in the US. Capacity utilization, at 68%, is well below the 80% rate normally associated with healthy growth. The economy should bottom out by the end of the year although the ensuing recovery may be longer and more gradual than any since the Great Depression.

On a positive note, signs of economic stability have appeared. Thanks to the monetary easing of the world's central banks, financial institutions continue generating sufficient earnings to help offset some of the write downs they must take. The world economy is being supported by growth from developing economies, notably India, Brazil and China (which just reported a 7.9% second quarter growth rate) as well as fiscal stimulus from the world's governments.

On the business front, corporations continue to cut costs to bolster earnings. Though second quarter earnings are rising, the increases are largely due to lower expenses from reduced wages, fewer hours worked and employee furloughs. Gross revenues are dropping, and both earnings and revenues are well below last year's levels.

Due to their declining net worth and the challenging employment market individuals have reduced spending and are working to rebuild their nest eggs as evidenced by the increase in the savings rate to 6.9% last quarter. The increase in savings, and corresponding reduction in spending, will lead to a slower and more sustainable recovery than the credit driven expansions of the past 25 years.

The equity markets remain overpriced based on earnings forecasts for 2009 and 2010. Current estimates are optimistic and assume a strong recovery which is far from certain. Regardless, we continue to identify and monitor companies with solid, long-term track records, conservative balance sheets, good prospects and substantial, sustainable dividends.

Despite the ebb and flow of the market over time our firm has maintained an excellent 35 year track record. By conducting our own research, we provide an independent point of view, which protects our clients from the herd mentality of many investors and the short-term thinking prevalent in the financial services industry. As a result – our clients have outperformed the Standard & Poor's 500 Index (S&P 500) over the past 3, 5, and 10 years.

If you know anyone needing peace of mind in regard to their investment portfolio, please let us know.