October 1, 2010

Client
Address
City

Dear Client,

A strong showing from the equity markets in September changed the quarter from being marginally to solidly positive. Historically, this is an unusual event as September is the one calendar month of the year that has on average served up negative returns. I guess market participants just got too negative in their economic and market outlook by the end of August, a situation I took advantage of for my clients by adding to numerous stock holdings in the period.

The companies added to were Intel, Microsoft, Paychex, Medtronic, Lockheed, JP Morgan, CVS, Diamond Offshore and Conoco. The common theme is dominant businesses, attractive purchase prices, dividends that are strong and/or growing, little or manageable amounts of debt and a recent decline in stock price. I sold out my position in Deere in the quarter as the price surpassed what I thought would provide a decent, risk adjusted return going forward.

Bonds also advanced smartly in the quarter, contrary to my numerous predictions over the last year. This has brought on talk of a bond bubble, which depending on how the term is used, I agree or disagree with. If it means that purchasers are likely to have unattractive returns going forward and be very disappointed with the results, I agree. If it means a massive destruction of capital, a la the tech & telecomm or real estate bubbles, I think that is unlikely. I sold the remaining municipal bond mutual funds held in client accounts in the quarter for the same reason I sold Deere and do not expect to purchase any bonds in the near future.

I am optimistic related to stock market performance through the end of 2011 for the reasons outlined below and will opportunistically purchase domestic, high quality, dividend paying companies such as those listed above. First and foremost I am finding plenty of excellent businesses to invest in, priced attractively on an absolute and relative basis. In addition, we are in the sweet spot of the political cycle whereby the mid-term elections will bring an end to the recent, massive legislative uncertainty and the administration will change from nasty to nice regarding business in order to improve its chances for re-election. Third, the economy should continue to advance slowly either on its own or with the help of monetary and fiscal policy. Finally, market participants are demonstrating an extreme love of bonds and no love for stocks, which may rewards investors that take the opposite tack.

Of course, I'm tracking ongoing concerns I have related to the China "miracle", European sovereign debt issues, Japan's demographic challenges, the Iran nuke situation and the nasty U.S. deficit problem, to name a few. Developments in any of these or other area may present an opportunity to purchase assets more cheaply or lead me to change my current outlook.

Along with your most recent portfolio report I have included a graph that highlights the love of bonds versus stocks by mutual fund investors over the last 15 years and a list of mid-term election cycle stock market returns since the 1930's. I will be happy to discuss these or other items when we review your investment portfolio report. Please visit our recently completed web site at www.NewWestInvestment.com and be sure to track our ongoing thoughts via the blog link there.

Best regards,

Peter V. Hedberg