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RESEARCH REPORT

May, 2009

Market Overview & Strategy Comments: *What Is Motivating the Recent Rally?*

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Key Statistics	Current	Change Since Previous Month	2009 Change
Dow Jones Industrial Average *	8168.12	+7.3%	-6.9%
S&P 500 Index *	872.81	+9.4%	-3.4%
S&P 500 Ave. P/E Ratio **	14.7x	+1.3x	+0.8x
NASDAQ *	1717.30	+12.3%	+8.9%
1 Year Treasury Bill Yield	0.49%	-8 bps	+12 bps
10 Year Treasury Bond Yield	3.16%	+45 bps	+91 bps
30 Year Treasury Bond Yield	4.05%	+49 bps	+136 bps
Municipal Notes - 1 Year Yield	0.85%	-5 bps	-30 bps
Municipal Bonds - 10 Year Yield	3.30%	-30 bps	-80 bps
Reuters/Jefferies CRB Futures	$222.39	+0.9%	-3.1%
Gasoline NY RBOB ($ per gal.)	$1.47	+5.3%	+46.2%
Natural Gas ($ per MMBtu)	$3.37	-10.7%	-40.0%
Gold ($ per troy oz.)	$890.70	-3.5%	+0.8%

** price only   ** based on 2009 earnings estimates.*
The Reuters/Jefferies CRB Futures Price Index is an arithmetic average of commodity futures prices with monthly rebalancing.
Gasoline NY RBOB price excludes local, state and federal taxes (the"wholesale price").

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Investor expectations have been so low throughout the winter that the market is greeting recent positive news with the same enthusiasm a parched man shows a glass of water after crossing the desert. The news hasn't been particularly good yet – the economy is still struggling and the fiscal stimulus package has yet to make an impact – but the fact that the economy has produced some signs of life has proven a pleasant surprise to investors who seem to have had absolutely no expectation of *any* sort of improvement. As a result, stocks started moving up in early March and were up 9% in April. Some of the reasons for this investor interest include:

- Consumer spending rose over 2% in the first quarter after a steep drop late last year. Purchases of durable goods surged after four straight quarterly declines. It appears that consumers have delayed essential spending as long as they could and are now cautiously returning to the stores.
- While exports are still down sharply, knocking a whopping 4% off GDP, output was cut back more than actual demand as evidenced by a record $100 billion drop in inventories. If one makes the assumption that inventories are now too low – not only here but also for our trading partners – it is reasonable to expect that we could experience improved factory and export demand in the near future.
- In the few months since Obama's inauguration, the fiscal stimulus package has moved from a political idea to a certainty. The expectation of a dramatic infusion of spending in what has been a gridlocked economy is creating some optimism. State and local governments are particularly parched with their spending down 4% last year to the lowest levels in 30 years.
- The growth rate of the Weekly Leading Index has improved by a third since its December low. With the exception of 1930, an index rebound of this magnitude has forecast 16 of 17 recoveries.
- Consumer confidence soared in April, rebounding to its highest level since November. In particular, the survey showed a substantial improvement in consumers' short-term outlook, including their assessment of the job market. We need confident and hopeful consumers to start spending again to sustain any recovery in the economy, and we saw notable sentiment improvement this month.
- Weekly initial unemployment claims have rolled over in the last few weeks after surging in late 2008. While it is clearly too early to know if this pattern is sustainable, generally jobless claims peak several months before a recovery begins.

In addition to the above items, we are also seeing general improvement in the factors which led to the downturn in the first place, such as:

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- Consumer balance sheets continue to mend with savings rates up.
- Home demand is surging in parts of the country as low rates and low prices bring buyers back. This renewed demand combined with a near cessation of all new home building should allow the bear market in home prices to soon bottom.
- The credit markets are healing as evidenced by a rally in higher quality corporate bonds and a huge drop in the all important LIBOR interest rate which drives so many other rates. Short-term LIBOR rates have dropped from 4% late last year to 0.5% today. Additionally, the spread between 10 year treasuries and high quality corporate bonds has gone from 250-350 basis points to 150-200 basis points, strong indications the deep freeze in the credit markets is over.

It's important to stress yet again that in the current pessimistic environment, a statistic that is less bad than expected is treated as a positive. *The economy has a long way to go, but investors seem to have finished their panic selling, taken a deep breath, and recognized that the economy, while struggling, is not in the uncontrolled free fall that so many originally feared.*

So are we at the start of the next bull market? In the months ahead that could very well become the news pundits' favorite question. Unfortunately, it's impossible to tell if a rally will stick until well after it is underway, which is precisely why we caution against short-term market timing strategies. It's just too easy to miss the market turnaround while you wait for proof the economy has improved.

That having been said, given how low and inexpensive stocks got during last year's sell-off, we are cautiously optimistic that the worst may be behind us. Not surprisingly, the rally has been led by previously depressed cyclical stocks, such as retail, capital goods and technology. Due to our participation in those sectors, our portfolios have been performing well. And despite generally weak reported corporate profits, expectations had fallen too far, and most companies are doing as well as or better than expected, helping sustain the market rebound. Retailers *Target*, *Staples*, and *Walgreens* all produced strong market gains during the month. We have seen companies such as *Google*, *America Movil* and *United Technologies* beating expectations, *Johnson & Johnson* raising its dividend, *Colgate* and *Fomento Economico Mexico (Femsa)* doing well in the international consumer area despite the global downturn, and prospects for market share gains sparking a rebound at *Toyota Motor*.

While there are ample signs of stabilization and a few of actual improvement in the economy and markets, we aren't out of the woods yet. The economy is still struggling to work through the challenges that put us into a recession in the first place, and there are a number of short-term wild cards ahead of us, such as the outlook for exports and the economic impact of the swine flu outbreak. On the positive side, once the stimulus package kicks in there should be further gains for the economy and markets. *For now, however, the stock and bond markets are showing prices can move higher despite some continued economic worry, as long as the data point to stabilization or improvement, not further deterioration.*

CORE HOLDINGS LIST FOR 2009

Source: FactSet, First Call, Value Line, Bloomberg & CAM Estimates.

May 1, 2009	Company Name	Ticker	Recent Close	2009 EPS	2010 EPS	2009 P/E	2010 P/E	Est EPS Growth	P/E to Growth	Market Cap($mm)	ROE	Div Yield
	Standard & Poors 500	SPX	872.81	$59.42	$72.28	14.7x	12.1x	8%	-	7,585,284	14%	2.5%
Financials:	Berkshire Hathaway Cl "B"	BRK/B	3,065.00	$197.15	$217.80	15.5x	14.1x	10%	1.4x	45,209	4%	0.0%
	MasterCard	MA	183.45	$10.39	$12.29	17.7x	14.9x	16%	0.9x	18,073	-	0.4%
Consumer Staples:	Coca Cola	KO	43.05	$3.05	$3.34	14.1x	12.9x	7%	2.0x	99,646	28%	3.8%
	Colgate Palmolive	CL	59.00	$4.20	$4.63	14.0x	12.7x	9%	1.4x	29,517	93%	3.0%
	Diageo Plc ADR	DEO	47.85	$4.19	$4.61	11.4x	10.4x	8%	1.4x	29,901	40%	4.8%
	Fomento Economico Mexico	FMX	28.31	$1.87	$2.23	15.1x	12.7x	23%	0.6x	6,118	14%	2.2%
	H.J. Heinz	HNZ	34.42	$2.79	$2.95	12.3x	11.7x	9%	1.3x	10,830	45%	4.8%
	Walgreen Co.	WAG	31.43	$2.13	$2.40	14.7x	13.1x	12%	1.1x	31,169	18%	1.4%
Health Care:	Becton Dickinson	BDX	60.48	$5.03	$5.53	12.0x	10.9x	12%	0.9x	14,498	24%	2.2%
	Johnson & Johnson	JNJ	52.36	$4.52	$4.90	11.6x	10.7x	7%	1.6x	144,914	30%	3.7%
	Medtronic, Inc.	MDT	32.00	$3.11	$3.43	10.3x	9.3x	11%	0.9x	35,817	20%	2.3%
	Novartis AG	NVS	37.91	$3.90	$4.33	9.7x	8.7x	7%	1.2x	100,220	16%	3.8%
	Zimmer Holdings	ZMH	43.99	$3.87	$4.28	11.4x	10.3x	10%	1.0x	9,779	15%	0.0%
Consumer Discretionary:	Staples, Inc	SPLS	20.62	$1.14	$1.35	18.0x	15.3x	15%	1.0x	14,747	14%	1.6%
	Target Corp.	TGT	41.26	$2.52	$2.80	16.3x	14.7x	13%	1.1x	31,041	15%	1.6%
	Toyota Motor Co. ADR	TM	79.16	-$1.02	$1.61	-	49.2x	3%	16.4x	136,472	14%	3.2%
Technology:	Cisco Systems	CSCO	19.32	$1.07	$1.13	18.1x	17.0x	13%	1.3x	112,771	24%	0.0%
	EMC Corp.	EMC	12.53	$0.62	$0.79	20.2x	15.9x	12%	1.4x	25,216	11%	0.0%
	Fiserv, Inc.	FISV	37.32	$3.59	$4.02	10.4x	9.3x	15%	0.6x	5,800	14%	0.0%
	Google	GOOG	395.97	$19.26	$22.10	20.6x	17.9x	20%	0.9x	95,354	17%	0.0%
Industrials:	3M Co.	MMM	57.60	$3.88	$4.26	14.9x	13.5x	13%	1.1x	39,997	32%	3.5%
	ABB Ltd. ADR	ABB	14.22	$1.10	$0.95	13.0x	14.9x	10%	1.5x	33,030	28%	0.0%
	Danaher Corp.	DHR	58.44	$3.49	$3.66	16.8x	16.0x	12%	1.3x	18,627	14%	0.2%
	General Electric	GE	12.65	$1.01	$0.97	12.6x	13.1x	9%	1.5x	133,698	16%	3.2%
	United Parcel Service	UPS	52.34	$2.42	$2.91	21.6x	18.0x	12%	1.6x	36,206	32%	3.4%
	United Technologies	UTX	48.84	$4.17	$4.49	11.7x	10.9x	11%	1.0x	46,009	25%	3.2%
Energy:	Apache Corp.	APA	72.86	$2.86	$6.35	25.5x	11.5x	8%	1.5x	24,398	4%	0.8%
	Petroleo Brasileiro S.A. ADR	PBRA	26.98	$2.40	$2.97	11.2x	9.1x	8%	1.2x	49,923	30%	1.1%
	Sasol LTD ADR	SSL	30.11	$3.48	$3.89	8.6x	7.7x	-	-	19,181	32%	4.2%
Telecom Services:	America Movil ADR	AMX	32.85	$2.90	$3.37	11.3x	9.7x	10%	0.9x	34,016	46%	1.6%
	China Mobile Hong Kong	CHL	43.16	$4.25	$4.35	10.2x	9.9x	15%	0.6x	173,121	28%	4.1%
Transportation:	Kansas City Southern	KSU	15.25	$0.89	$1.30	17.2x	11.7x	20%	0.6x	1,397	10%	0.0%
Exchange Traded Funds:	iShares MSCI EAFE Index	EFA	41.92	-	-	-	-	-	-	27,114	-	2.6%
	iShares MSCI Emerging Mkts	EEM	28.67	-	-	-	-	-	-	25,803	-	2.4%

0% weighting in utilities and materials.

The above is a list of common stocks currently held in clients' portfolios. Not all stocks are held in all portfolios for various reasons. Upon request we will furnish a list of all equity recommendations made within the past twelve months. This list includes the name of the security, date and nature of the recommendation, price at which the recommendation was acted upon, and the current market price of the security. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list.
Please contact Mickey Herst for a copy of the list.

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