CONCORD ASSET MANAGEMENT
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RESEARCH REPORT

October, 2009

Market Overview & Strategy Comments: *Looking Brighter, But Still Not Out of the Woods.*

With stocks holding onto a record-setting 56% rebound from March lows, investors finally seem convinced the stock market rally that began six months ago is no flash in the pan. We discuss our thoughts on what drove this rally and what we expect in the coming months.

Key Statistics	Current	Change Since Previous Month	2009 Change
Dow Jones Industrial Average *	9712.28	+2.3%	+10.7%
S&P 500 Index *	1057.08	+3.6%	+17.0%
S&P 500 Ave. P/E Ratio **	18.2x	-0.4x	+4.3x
NASDAQ *	2122.46	+5.6%	+34.6%
1 Year Treasury Bill Yield	0.40%	-3 bps	+3 bps
10 Year Treasury Bond Yield	3.31%	-9 bps	+106 bps
30 Year Treasury Bond Yield	4.03%	-15 bps	+134 bps
Municipal Notes - 1 Year Yield	0.65%	0 bps	-50 bps
Municipal Bonds - 10 Year Yield	3.15%	-35 bps	-95 bps
Reuters/Jefferies CRB Futures	$259.39	+2.3%	+13.0%
Gasoline NY RBOB ($ per gal.)	$1.73	-13.1%	+71.2%
Natural Gas ($ per MMBtu)	$4.84	+62.6%	-13.9%
Gold ($ per troy oz.)	$1008.00	+5.9%	+14.1%

** 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").
For clients only. All factual materials are obtained from sources believed to be reliable but cannot be guaranteed. Securities are identified for illustrative purposes only. This should not be construed as a recommendation to purchase or sell any securities.

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Market Overview & Strategy Comments*: Looking Brighter, But Still Not Out of the Woods.*

With stocks holding onto a record-setting 56% rebound from March lows, investors finally seem convinced the stock market rally that began six months ago is no flash in the pan. Dare we say, the market is returning to something approaching normal activity relative to reported economic news instead of seeing gloom and doom behind every statistic. Consider the following:

- Profits are surprisingly strong, with Q2 non-financial corporate profits up 20% over Q1, and cash flows now well over $100 billion in Q2 versus negative $200 billion a quarter during the crisis.
- U.S. exports rose at a 14% annual rate from April through July, and faster GDP growth at key trading partners should power even faster growth. The weak dollar continues to help, down 25% since 2002. As a result, our trade and current account deficits have shrunk in half.
- Industrial production and housing starts are up enough that housing may actually *contribute* to growth for the first time in almost four years.
- The outlook for capital spending is picking up, with companies such as *Philip Morris, Hewlett Packard, Merck* and *Heinz* reporting double digit growth in capital spending. Health care, telecom and even financial companies spent more in Q2 than Q1. Technology spending is forecast to rise as much as 10% next year.
- Inflation news is upbeat despite Fed easing and higher commodity prices. Almost all major cities are reporting price drops year over year of as much as 4%, and price increases for non-energy services are the lowest on record.
- The IPO market is healing with volume back to early 2008 levels. The ability of companies to raise equity capital is critical for future hiring and capital spending plans.
- A global recovery is underway; trade volume was up almost 4% in July, and Asia, the Americas and Europe are all moving back into growth mode at the same time.
- Merger and acquisition activity is also picking up and valuations are rising for the companies being acquired. Recent deals include *Kraft's* pursuit of *Cadbury* and *Disney* acquiring *Marvel*. With cash building up on balance sheets and borrowing costs coming down, it's likely global M&A activity will keep expanding.
- Debt markets are evolving with bank lending slumping and bond and equity issuance soaring. The record issuance of more than $1 trillion investment grade bonds this year is driven by a desire to replace short-term bank lending with equity and long-term bond financing to stabilize balance sheets and set the stage for a return to growth.

Although the economy is strengthening and the stock market has clearly turned the corner, investors need to remember that our economy is far from experiencing robust growth. It is still in the process of recovering and has to address the same problems that have been plaguing it for some time. The following issues are significant and could continue to weigh on long-term growth for some time:

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- Unemployment is high and still rising, sitting close to 10% nationally and well over that in several states. Figures on the "under-employed" workforce points to another 10%, indicating that the employment problem in this country is huge and remains a drag on long-term growth.
- The federal budget deficit continues to swell, and state and local governments are in a weak fiscal position, putting pressure on state budget spending and hiring.
- Although foreign economies and international trade are growing, much of the domestic economy is still struggling, especially in light of the states' weak fiscal positions.
- Housing may be improving but it is unlikely to reach previous levels or become the engine for economic growth that it was in the previous expansion.
- Consumer spending, while much improved, is still a long way from what most would consider normal.

Consequently, *while the good news is welcome, we are not completely out of the woods.* Taking our positives and negatives together, *we see positive but modest rates of economic growth for the time being.*

Turning to our investments, bond yields have come down but are still far ahead of the practically 0% return on money funds, making short-to intermediate-term bonds still an attractive proposition, especially given the current low rate of inflation. For stocks, investors should realize that with the market up nearly 60% since March, the easy gains have been made. It happened quickly and well before good news became concrete, which is why we remind investors to stay invested even if the outlook is gloomy. However, we believe the stock market still has a lot of room to grow at a more reasonable pace if we experience an economic recovery, especially since valuations still remain attractive and over $3.5 trillion sits in money market funds on the sidelines. Before that happens, however, we would not be surprised to see the market pause to catch its breath.

Our portfolios remain positioned to take advantage of the opportunities we see unfolding in the following areas as the economy progresses and sectors evolve:

- Infrastructure stimulus plays such as *ABB, Schlumberger, EMC* and *IBM* all should benefit from big government and energy related spending programs around the world.
- Consolidation/merger stocks, such *as Johnson & Johnson, Novartis, Cisco* and *Danaher* all have histories of making opportunistic acquisitions, and have strong balance sheets to support future acquisitions.
- Domestic cyclicals, such as *3M, Target, Toyota,* and *Walgreens* are seeing sales trends improve as consumers come out of their shells and start spending a bit more.

While at the moment the good news seems to be picking up, we remain concerned with some of the structural aspects of our economy, which leads us to *believe investors should be increasingly selective about their holdings and not get overly aggressive following the history making rally off the lows.* However, despite our caution, we are pleased to see that the recent rally shows signs of being more than a mere flash in the pan.

CORE HOLDINGS LIST FOR 2009

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

October 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	1,057.08	$58.03	$69.19	18.2x	15.3x	8%	1.9x	9,336,517	13%	2.5%
Financials:	Berkshire Hathaway Cl "B"	BRK/B	3,323.00	$157.64	$182.29	21.1x	18.2x	5%	-	49,293	4%	0.0%
	MasterCard	MA	202.15	$11.00	$12.92	18.4x	15.6x	17%	0.9x	22,173	10%	0.3%
Consumer Staples:	Coca Cola	KO	53.70	$3.04	$3.34	17.7x	16.1x	5%	3.4x	124,447	28%	3.1%
	Colgate Palmolive	CL	76.28	$4.29	$4.78	17.8x	15.9x	10%	1.5x	38,020	93%	2.3%
	Diageo Plc ADR	DEO	61.49	$4.43	$4.88	13.9x	12.6x	8%	1.6x	38,428	40%	3.7%
	Fomento Economico Mexico	FMX	38.05	$1.92	$2.53	19.8x	15.1x	23%	0.7x	8,223	8%	0.5%
	H.J. Heinz	HNZ	39.75	$2.79	$2.89	14.2x	13.8x	8%	1.8x	12,529	59%	4.2%
	Walgreen Co.	WAG	37.47	$2.12	$2.45	17.7x	15.3x	14%	1.1x	37,184	15%	1.5%
Health Care:	Becton Dickinson	BDX	69.75	$5.00	$5.24	13.9x	13.3x	12%	1.1x	16,697	24%	1.9%
	Johnson & Johnson	JNJ	60.89	$4.52	$4.89	13.5x	12.4x	7%	1.9x	167,802	30%	3.2%
	Medtronic, Inc.	MDT	36.80	$3.08	$3.36	12.0x	10.9x	11%	1.0x	40,730	18%	2.2%
	Novartis AG	NVS	50.38	$3.95	$4.41	12.8x	11.4x	8%	1.4x	132,883	16%	2.9%
	Zimmer Holdings	ZMH	53.45	$3.87	$4.28	13.8x	12.5x	10%	1.3x	11,455	15%	0.0%
Consumer Discretionary:	Staples, Inc	SPLS	23.22	$1.13	$1.34	20.5x	17.3x	14%	1.2x	16,773	14%	1.4%
	Target Corp.	TGT	46.68	$3.01	$3.36	15.5x	13.9x	13%	1.0x	35,097	15%	1.5%
	Toyota Motor Co. ADR	TM	78.57	NMF	$2.18	NMF	36.0x	5%	7.2x	135,455	14%	2.5%
Technology:	Cisco Systems	CSCO	23.54	$1.34	$1.41	17.6x	16.7x	12%	1.3x	136,360	24%	0.0%
	EMC Corp.	EMC	17.04	$0.83	$1.05	20.6x	16.2x	13%	1.2x	34,456	11%	0.0%
	Fiserv, Inc.	FISV	48.20	$3.65	$4.07	13.2x	11.8x	12%	1.0x	7,441	14%	0.0%
	Google	GOOG	495.85	$21.69	$24.48	22.9x	20.3x	21%	1.0x	119,982	17%	0.0%
	International Business Machines	IBM	119.61	$9.73	$10.65	12.3x	11.2x	11%	1.0x	156,795	59%	1.8%
Industrials:	3M Co.	MMM	73.80	$4.22	$4.57	17.5x	16.1x	12%	1.4x	51,532	32%	2.8%
	ABB Ltd. ADR	ABB	20.04	$1.14	$1.02	17.6x	19.7x	3%	6.5x	46,549	28%	0.0%
	Danaher Corp.	DHR	67.32	$3.37	$3.72	20.0x	18.1x	11%	1.6x	21,525	14%	0.2%
	United Technologies	UTX	60.93	$4.08	$4.45	14.9x	13.7x	11%	1.3x	57,352	25%	2.5%
Energy:	Apache Corp.	APA	91.83	$5.06	$8.66	18.2x	10.6x	10%	1.0x	30,832	4%	0.7%
	Petroleo Brasileiro S.A. ADR	PBRA	39.31	$2.92	$3.82	13.5x	10.3x	12%	0.9x	72,738	30%	0.9%
	Sasol LTD ADR	SSL	38.12	$3.32	$4.08	11.5x	9.4x	5%	1.9x	24,309	35%	2.8%
	Schlumberger, Ltd.	SLB	59.60	$2.68	$2.71	22.2x	22.0x	8%	2.7x	71,390	34%	1.4%
Telecom Services:	America Movil ADR	AMX	43.83	$3.34	$3.74	13.1x	11.7x	14%	0.9x	44,591	40%	1.0%
	China Mobile Hong Kong	CHL	49.11	$4.10	$4.19	12.0x	11.7x	11%	1.1x	197,029	28%	3.2%
Transportation:	Kansas City Southern	KSU	26.49	$0.50	$1.04	53.4x	25.4x	20%	1.3x	2,543	10%	0.0%
Exchange Traded Funds:	iShares MSCI EAFE Index	EFA	54.68	-	-	-	-	-	-	34,317	-	2.7%
	iShares MSCI Emerging Mkts	EEM	38.91	-	-	-	-	-	-	33,881	-	1.3%

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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