ESTABROOK CAPITAL MANAGEMENT LLC

Third Quarter 2009

Market Watch 9/30/09	Value	3Q09 Return
S&P 500 Index	1029.85	15.6%
DJIA	9509.28	15.8%

George D. Baker, CFA
Director
Portfolio Manager

Summary and Conclusion

The equity market's advance over the second quarter and the resulting expanded valuations of most stocks does little to deter Estabrook's view that the current setting continues to provide significant opportunity over a 24 month time horizon. Corporate earnings releases over the past ninety days generally have exceeded expectations in most industries even without significant revenue growth. This strongly implies that when the fiscal and monetary stimulus to world economies, in force for a year, results in sales improvement, profit margins and earnings comparisons should be remarkably favorable.

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Economic Setting

The U.S. economy emerged from recession during the third quarter. Some of the recovery was helped by temporary factors including tax credits for new home buyers, the government's "Cash for Clunkers" automobile purchase subsidy, and general inventory restocking after significant liquidations in the first half of 2009. Critics often point to the transitory nature of these factors concluding that they portend renewal of the recent bear market in equities.

Our view is that such negative arguments ignore several countervailing indications that suggest a more sustained recovery. These factors include:

1. ***Despite the September 30th exception of the Chicago PMI, most purchasing manager's indices are tracking higher in several major overseas economies as well as that of the U.S. In the U.S. this includes the services PMI which belies the assertion that any upturn in U.S. activity is just an upward inventory adjustment.***
2. ***Global steel production, according to ISI Group, has increased 27 percent over the past eight months. In the U.S. the industry's operating rate has moved from 42 percent at the beginning of the second quarter to 58 percent currently.***
3. ***U.S. residential real estate prices appear to be stabilizing and, in some regions, have moved higher on a sequential month basis. The U.S. Case/Shiller home price index for July, while down 13.3 percent from a year earlier, was 1.2 percent higher than that of June 2009 which in turn was .8 percent higher than that of May.***
4. ***Building contracts in the U.S. for August were $429.8 billion compared to $420.1 billion in July as reported by F.W. Dodge.***
5. ***The index of all manufacturing was 97.6 for August compared to 97.0 for July.***
6. ***Finally, despite a body of dismissive opinion that any upturn in data is just an inventory swing, the most recent data for all business inventories in July show a continuing decline to $1.333 trillion from $1.346 trillion in June.***

We expect U.S. real GDP to grow 3 percent in the second half of 2009 and 3.5 percent in 2010.

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Stock Market Outlook

As of this writing, the Standard and Poor's 500 stock index is selling for about 14 times our 2010 earnings estimate of $74 in a setting in which the 10 year treasury yield is 3.18%. This implies a current equity market earnings yield double of the treasury bond yield. Moreover, the $74 earnings estimate is about 20% below what we consider fully recovered earnings potential of $92 within two to three years' time.

This valuation implies to us two appropriate tenets regarding investment strategy:

First, the U.S. stock market attractiveness is based to a greater degree than earlier this year on the two year rather than nearer term outlook for corporate performance after the 50% advance from the March panic low of 666.92 for the S&P 500.

Secondly, it is appropriate to emphasize investments that have sufficient cyclical leverage from either product pricing or unit volume to enable a significant increment in earnings combined with below average price to earnings ratios.

Strategy Shifts

Late in the second quarter Estabrook began increasing portfolio exposure to North American natural gas. This process has continued through the third quarter. The rationale involved our estimate that the price for this commodity would reach a bottom in the summer and recover as September approached.

Also, holdings in consumer staples and agricultural products were reduced to provide funds for still further commitments to North American natural gas and electrical equipment and process controls. We continue to view the electrical equipment and process control industry as one of a handful of industrial manufacturing segments in which the American companies will remain leading competitors.

In selected instances, we have added to new second quarter commitments initiated in international companies that mine iron ore, copper and nickel. So far, these investments have provided favorable results.

Fixed Income Strategy

Our fixed income strategy is based on the twin themes that solidly investment grade corporate bonds are a much better value than U.S. Treasuries and that the longer end of the yield curve contains an unattractive risk versus yield relationship.

We expect this reality to be brought into sharper relief when the Federal Reserve further moderates its purchases of treasuries.

Accordingly, we prefer to structure bond portfolios with single A or better corporates within the five to eleven year maturity range resulting in an average maturity of six to seven years.
