MARKET COMMENTARY

December 13, 2010

Over the last 30 days the news on the macroeconomic front has for the most part been very positive, confirming our constructive view in last month's letter. There is increasing evidence that U.S. consumers are feeling their oats, and spending levels have picked up ahead of the holidays. Although we are troubled by the criticism of Chairman Bernanke's QE2 program, weak employment data released in early December should quiet some of his critics. Our "biggest concerns" list is now populated largely by overseas items, led by the European Central Bank and political wrangling regarding a bailout of Ireland and potentially other countries as well. Trouble on the Korean peninsula and Chinese attempts to successfully engender a soft landing in their fight against inflation, particularly as it relates to food and property prices, fill out the top three items.

Below, we provide a list of recent data in support of the case for an improving economic environment:

- ISM manufacturing survey indicated continued expansion in November, marking the 16th consecutive month of growth. ISM non-manufacturing (the larger services-oriented part of the economy) expanded at fastest rate in six months.

- October construction activity in the U.S, reported with a one-month lag, expanded on a month over month basis when most forecasters were expecting a decline. September's activity level was also revised higher.

- The big three U.S. auto manufacturers reported healthy sales in November, continuing their slow, steady recovery from recession lows.

- The Federal Reserve's regional banks generally reported economic strength, with 10 of 12 regions indicating growth.

- Retail sales have been stronger than anticipated, including the recent Black Friday shopping period. The International Council of Shopping Centers monthly report showed the highest level of activity since April 2007 and the first monthly improvement in five months.

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- The November Chinese manufacturing report showed acceleration for the fourth month in a row despite higher inflation. Similar growth was reported in surveys from manufacturers in India, South Korea, and Taiwan.

- Planned capital expenditures by U.S. industrial companies in 2011 are up strongly according to a recent ISI survey. Such activity is historically a leading indicator of employment growth.

The S&P 500 index was flat during the month of November. The best performing sectors were Energy, aided by a surge in the price of crude oil, and Consumer Discretionary, which was bolstered by improving consumer confidence. Defensive sectors such as Health Care and Utilities were a drag on the market's performance. We have generally positioned portfolios to benefit from the pro-inflationary efforts of the Fed, with an emphasis on materials sector stocks as well as coal and precious metal holdings. These also should position portfolios to benefit from growth in emerging markets and the associated demand for commodities from those regions. The Fed's QE2 program and the possibility of a weaker US dollar are also likely to bolster commodity prices. The increasing likelihood of a legislative agreement in Washington to keep tax rates from rising in 2011 should provide continued sustenance to the market's surge since the end of August, and we believe conditions are in place to support higher equity prices in the near term.

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