

Investors Return to Embrace Risk

With each passing day we receive further confirmation that both the U.S. and the global economies are experiencing a recovery in economic activity. It is clear that the credit crisis has abated. Bond markets are healthier as liquidity has returned. The spread between interest rates on U.S Government Securities and both municipal and corporate bonds continues to narrow. Consequently prices of municipal and corporate bonds are rising and yields are declining. There has been a significant increase in the volume of daily transactions as well as the number of new bond issues coming to the market. The commercial real estate market seems to be in the early stages of bottoming. Lower valuations for commercial properties are attracting new investors eager to participate in the restructuring of the large amount of debt that had been placed on properties. This refinancing activity will help to stabilize property values and thus relieve the pressure on the balance sheets of those financial institutions that financed many of these properties.

The consumer continues to de-leverage as they pay down credit card and other debt and replenish savings. Consumer spending is bottoming as reflected in the leveling of retail sales after having experienced a long period of decline. Unemployment is peaking as fewer people are losing their jobs. In fact, we are beginning to see an improvement in new hiring in selected industries. In sum, it is evident that both the U.S. and global economies have reached a trough and are in the early stages of recovery.

Nevertheless there is a divergence of opinion amongst economists as to whether the global economies are positioned to resume their prior growth or will enter a period of stagnation before the next advance. Abner Herrman & Brock's forecast is that the economies are in the early stage of a synchronized global expansion that is likely to extend for some period of time. We believe this anticipated economic growth will be fostered by 1) a rebuilding of depleted inventories, 2) above average growth in the BRIC countries (Brazil, Russia, India, and China) and 3) the benefits of various fiscal stimulus programs that were initiated in late 2008 and early 2009 and are just beginning to have an impact on the economies.

In the U.S., the weak dollar will undoubtedly have a positive effect on exports and foreign investment in the U.S. We would expect that the resurgence of growth in the U.S will be lead first by increased trade stimulated by attractively priced products and services. This will be followed by an increase in consumer spending as the consumer builds confidence after solidifying their personal finances through debt retirement and increased savings. As the consumer returns, the U.S. will have all major spenders participating in restoring economic

(OVER)

growth; the government through the fiscal stimulus program, the business benefiting from a lower dollar and increased productivity, and the consumer after having de-leveraged and returned to the labor force. The growth will be propelled by companies with strong balance sheets and efficient low cost operations. This will provide for increases in productivity which will go a long way in keeping inflation at low levels.

With regard to the financial markets, we believe the exceptional opportunities for capital gains that were available in the bond market during the past twelve months have generally been realized. This has resulted in the narrowing of the spread between U.S. Government bonds and that of municipal and corporate bonds as these bond prices increased and yields declined. Nevertheless, intermediate maturity corporate and municipal bonds continue to offer attractive relative yields when compared with the yields on shorter term U.S. Government, corporate and municipal bonds.

Because of the changes that have taken place in the bond market and the improved economic outlook, we believe the more attractive risk adjusted investment opportunities now appear to favor investing in stocks as opposed to bonds. The equity market has been cleansed of the excesses created over the past several years. New regulations have either been put in place or are in the process of being developed to restore investor confidence. These steps are also likely to reduce volatility and risk as the markets are freed of unregulated participants taking advantage of those who were more strictly governed. The playing field is now more level.

The S&P 500 Index and the Dow Jones average are trading at approximately 30% below their peak levels. As business and consumer spending begin to increase, lower operating costs and improved productivity will provide positive financial leverage to propel corporate earnings beyond conventional Wall Street analyst forecasts. As this scenario develops valuations will expand moving stock prices higher. It is for these reasons that we believe the equity market is providing opportunities for those investors seeking above average risk-adjusted returns.

Enjoy the holiday season.

Investment Policy Committee

Abner, Herrman & Brock Asset Management

Founded in 1981, Abner, Herrman & Brock Asset Management manages portfolios individually structured to assist each client in achieving their investment objectives. Stock portfolios are managed utilizing a Core Equity philosophy, investing in both large capitalization value and growth disciplines with an objective of long-term, after-tax appreciation and below market volatility. Portfolios are diversified across economic sectors, industries and companies. Bond portfolios are managed to provide a high rate of current income and total return. Portfolios are invested in staggered maturities of U.S. Treasury, government agency and investment-grade corporate bonds and where appropriate, investment-grade municipal bonds. Portfolio managers are available to meet with clients upon request. Please visit our website at www.ahbi.com for a more detailed description of our investment **Philosophy, Process and People**.