BEING THANKFUL.

As we review an amazing year, we are struck with the wide gamut of emotions. We began the year perplexed with an U.S. economy and stock market in an extremely fragile state. There were so many confusing and conflicting data points from interest rates, insolvent banks, plummeting confidence ratings, to price-to-earnings ratios. By the time the first quarter ended, stock prices had gotten so absurdly low that we found ourselves putting all the cash (around 25%) back into stocks.

Fast forward to October, the equity market currently rallying over 60% from the March lows, but many of the financial issues that seemed poised to doom the world economy still lingering. We have spent November increasing to our cash levels in order to take some profits from the strong rally while decreasing the risk of our portfolios being hit hard by some short term volatility and possible pull back. While we remain positive on the future performance of the companies in our portfolio, we would be irresponsible not to continue to recognize the short term headwinds for the world economy.

We were feeling quite pleased to have prepared well for both the downturn and the subsequent robust recovery outperforming the S&P 500 in both scenarios. The market currently stands 30% below its all time high achieved in 2007. Our portfolios are only 12% away from that previous high water mark, which statistically shows the benefit of our successful active stock management.

LOOKING FORWARD.

The most difficult and pressing issue facing the U.S. Economy is the seemingly never ending list of spending items put forth by our administration. The solution that the Democrats in the House of Representatives put forth is simple, the government will just get the money from the rich Americans making over $250,000 a year by putting surtaxes ranging from 1% to an eye popping 5.4%!

These debt issues and subsequent inflationary risks have not only pounded the US dollar but given an uncharacteristic rise to historically one of the worst long-term investments - gold. Of course, Wall Street's newest gimmick, exchange traded funds (ETF) in gold have lead casual investors to this new and improved "bubble". Similar to the REIT in the 1970-80's when every American owned a piece of a strip mall in Iowa, now every American can "own" gold by simply buying an investment product that gives you the right to the shinny stuff. Don't worry about actually physically having any gold; Wall Street firms will keep track of your ownership rights for you. What could possibly go wrong?!

As we look into 2010, we will see the conclusion of some pretty scary proposed legislation and perhaps some direction from the White House about job creation. The market will no doubt mark time until these decisions are determined. We feel it will be a good year with our main focus being the timely redeployment of our cash.

This year has been quite an adventure and we have many things for which we are thankful - especially our investment philosophy of investing in good quality companies that can withstand all the interesting twists and turns of the markets.

As is our holiday tradition, The Palmer Knight Company has made a financial donation in honor of our clients to Wolfson's Children Hospital.

As always, thank you for your trust.

Davis Green

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