

ACKERMAN CAPITAL MANAGEMENT, LP
5956 SHERRY LANE, SUITE 1600
DALLAS, TX 75225
(214) 361-5383

October 30, 2009

In the third quarter of 2009 confidence in the economic recovery grew, and the stock market continued to rally. The S&P 500 Index has now risen more than 60% from its March 9th lows, but still remains 30% off its 2007 highs. Foreign stocks continued to outpace our own market, as the MSCI EAFE Index has rebounded 75% since its March lows. Bonds also posted, albeit more modest, gains in the third quarter. The BarCap Aggregate Bond Index has returned 5.74% on the year, but that gain masks impressive returns outside of the U.S. Treasury market. On the year, investment grade corporate debt (as represented by the Vanguard Intermediate Investment-Grade Bond Fund) has returned 16%, municipal bonds (measured by the BarCap Municipal Index) are up 14%, and the average return among high yield or “junk” bond funds is approaching 40%. The recovery in the capital market over the past six months has been truly astounding.

While we expected just such a rebound and positioned our portfolios to profit from it with timely precision, we must admit that the duration and magnitude of the advance has greatly exceeded our expectations. Nevertheless, the performance of our portfolios during the last two turbulent years (from the more conservative to the more aggressive) looks very impressive. Generally speaking, our portfolios fell much less than similarly managed portfolios in 2008, yet have outpaced the competition once again in a strong 2009. As we have been meeting with clients for fall portfolio reviews, your understanding of this accomplishment, the gratitude you express, and the countless referrals we have received has personally been very rewarding.

Looking forward, we are working hard to build on this performance. We have continued to modestly add exposure to more defensive and high-quality segments of the stock market that have not kept pace with the current rally such as health care stocks, high dividend yielding stocks, and “blue chip” multinational stocks. Meanwhile, we have been scaling back exposure to more risky segments of the market that have outpaced the rally, most notably in emerging markets. While the stock market continues to discount a strong and extended economic recovery, our concerns regarding a continued slide in the residential housing market and a looming crisis in the commercial real estate market have not diminished. While our concerns may be misplaced and the stock market may continue to rise, overall returns over the next five years will likely be modest given the current lofty valuations. High quality taxable and non-taxable bonds, therefore, represent a competitive alternative with a lower risk profile. Looking a number of years out, we

remain concerned about possible inflation risks. We already have some inflation hedging investments in our portfolios, but will look to add to them opportunistically over time.

Sincerely,

A handwritten signature in black ink, appearing to read "David B. Ackerman". The signature is fluid and cursive, with a long horizontal stroke at the end.

David B. Ackerman, CFA, CFP