

July 9, 2010

Dear Clients and Friends,

As we cross 2010's halfway point and look back at the first six months of 2010, we are struck by the dramatic swings in the S&P average. In mid-February the S&P was down approximately 6% for the year. From that low, it increased about 15% through late April and was up around 9% for the year. Since that late April high, the S&P has declined about 14% and as of June 30 is down 6.65% for the year. It is important to remember that stock market averages are not a proxy for the economy.

We have spoken in the past about the importance we place on our research and understanding the companies that we own while trying to tune out the "noise" of the daily markets. Although the market averages would tell investors otherwise, the economic challenges we face did not disappear in March and April nor did they suddenly appear in May and June. As we noted in our 2010 annual letter (March 22, 2010), we continue to remain cautious and our investments continue to be focused on, in our opinion, financially stable companies. Many of these companies pay out a dividend and our research indicates that they will be able to continue paying the dividend.

Our caution is driven by the impact of reduced government spending on the world economies. The economic stimulus programs that governments around the world have embraced have propped up the economies in the short-term but as those programs are reduced and eliminated, we feel economies will suffer. Arguments can be made about the effectiveness of the stimulus programs but most will agree that these programs only kicked the can down the road. Current arguments center on whether the can should be kicked further on down the road or if the governments should deal with it now. As we have seen in Europe, and even here in New Jersey, there is much rancor among individuals benefiting from the spending when a government takes action to cut its programs. As governments reduce headcount, it increases the number of consumers that can no longer spend as they had in the past.

As the public sector (i.e., government) deals with the realization that its future obligations far exceed the amount that has been set aside for those obligations, it is faced with the unenviable choice of raising taxes or cutting services and personnel, or both. Challenges to state governments will remain in place for years. We do not think that investors appreciate the risks involved in the municipal market and have mispriced the actual risk, which in turn results in lower yields on the debt.

We talked in March about the "historic" lows on 5-year treasury yield and 5-year CDs. At that time the 5-year treasury yield was 2.4% and the 5-year CD average rate was 2.9%. At the time of this writing, the yields are even more "historic" as the 5-year treasury yield is 1.8% and the average 5-year CD rate is 2.5%. As long-term investors, we struggle with such low yields. If rates were at more "normal" levels, in

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all likelihood, we would have more assets allocated to fixed income. However, we need to play with the cards we are dealt, and with short-term interest rates near 0%, we are allocated more heavily to high dividend paying stocks that, in our opinion, are also undervalued. While the price of these stocks could fluctuate more than a bond, with our view to the longer-term horizon, we feel that the dividend more than compensates us for any short-term price declines. It is important to realize that bond prices also fluctuate and it is quite possible that a bond could lose value due to an increase in interest rates.

We are concentrating on companies that provide a service or manufacture a product that, we think, will be able to withstand an economic slowdown. We have often mentioned the fact that we do not believe it is possible to time the market, and our research is based on finding companies that we think will appreciate in value over time. Our research is dependent on the expectation that over the long-term, the share price will reflect a true value of the company, however, we cannot know how long that will take.

As an example of the difficulty to predict short-term share prices as well as a cursory look at some of the items we look for during our research, allow us to point to one of our largest positions, Microsoft. As of its March 31, 2010 quarter end, it held \$39.67 billion in cash and short-term investments. This was an increase of 26% over its June 30, 2009 fiscal year end cash balance. In addition, its earnings per share increased 24% for the nine months ended March 31, 2010 versus the previous year. Most companies trade at a multiple of earnings and over the past five years, Microsoft has an average multiple of 18.9 times earnings and currently trades at a multiple of around 12. Based on these numbers, one could assume that the share price would reflect these robust amounts, yet the share price is down over 20% for the first six months of 2010.

We will continue our research and look for errors in our thinking. Example of errors could include our sales or earnings projections being too high, or we have not fully considered the effects of declining market share. Since we haven't found significant issues with the operations or results, we will continue to hold the positions and in some cases will buy more and, hopefully, take advantage of the low price.

**The preceding example is not a recommendation to buy Microsoft. At any time, we could eliminate or reduce the position. We will not inform readers of this letter of any changes to our position or thesis.**

We know how difficult it is to have patience when financial news outlets are geared for instant gratification and discuss what "traders" are talking about. As investors, we hope to take advantage of the price fluctuations when we are building a position. We will never be able to know when the bottom has been hit and conversely, we will not know if the top has been attained.

As stewards of your capital, we are keenly aware of our responsibility to you and your money. There are many factors that go into our decisions to buy, sell, or sell short an equity, and how much of your account should be allocated to fixed income versus equity. We will always do our best to have a proper allocation of stocks and fixed income but your individual comfort level may be different than your account's actual allocation, and that is something we should discuss. Please let us know if you wish to discuss the allocation or a specific holding in your portfolio and we will be happy to talk about it with you.

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Enclosed is your June 30, 2010 portfolio report. Please review it at your convenience and if you would like to discuss anything, please give us a call or send an email.

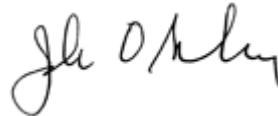
We hope you have an enjoyable and relaxing summer.

Very truly yours,

REDFIELD, BLONSKY & CO., LLC

A handwritten signature in black ink, appearing to read 'RRR', with a large, sweeping flourish extending to the left.

Ronald R. Redfield, CPA, PFS  
Partner

A handwritten signature in black ink, appearing to read 'John O'Shaughnessy', written in a cursive style.

John O'Shaughnessy, CPA

JO/dg  
Enc.