WOOD & WHITE
Investment Advisors, LLC

Market Commentary
Second Quarter 2009

To our clients and friends:

Investors were finally given a taste of the market's recovery potential in the second quarter, as the global equity and credit markets continued their rebound from the vastly oversold levels of early March. Investors' appetite for risk increased markedly through April and May, as fears of a systemic collapse and bank nationalization quickly faded. While the market rally subsided in early June, a hopeful consensus emerged that a catastrophe had been averted and that the lows of early March may mark a bottom for this bear market.

Once-terrified investors regained a measure of rationality and began unwinding the extreme "flight to quality" trade that had dominated market activity for months, dumping U.S. Treasury issues in favor of "riskier" assets of all stripes. The S&P 500 and the Dow Jones Industrial Average posted total returns for the quarter of 15.9% and 12.0% respectively, while the Russell 2000 surged over 20%. This marked the first quarter of positive equity returns for the major market indices in over a year and a half and the best performance since 2003. The corporate debt market roared higher, with even investment grade credits posting equity-like returns of over 10%, according to Merrill Lynch index data. The yield on the 10-year Treasury note, which moves inversely to its price, rose to just over 3.5% from 2.7% at the end of the first quarter.

After enduring several months of relentless declines, the violent nature of the recent stock market rally was not particularly surprising to us. Selling pressure driven by global deleveraging finally eased, and short-sellers were forced to scramble to buy stocks and cover their short positions. We have been of the opinion during the recent market panic that the underlying long-term prospects for the U.S. economy were stronger than the performance of the capital markets suggested. Our portfolios have been well positioned for an eventual recovery in economic and market conditions, and we are pleased to report that our clients have participated meaningfully in this recent rally.

While positive returns are encouraging and represent a welcome change in the recent trend, we are far from out of the woods. Unemployment is at a 25-year high and the housing market continues to flounder. Prolonged economic weakness points to continued elevated rates of default among over-leveraged individuals and corporations. Indeed, the trajectory and speed of the recent market rally, combined with the scale of recent government intervention and economic stimulus efforts, may have fostered unrealistic expectations for the pace of near-term economic recovery.

That said, it is difficult for us to make the case that the stock market has gotten ahead of itself. Stocks remain around 40% below their peak set in October of 2007. The Dow Jones Industrial Average is still in negative territory for 2009 with a total return year to-date of minus 2%. The S&P 500 is down over 26% for the past twelve months. After leading the recent rally with a gain of over 35% in the second quarter, stocks in the financials sector in the S&P 500 still remain in negative territory for 2009 (-4.8%) after plunging over 56% in 2008.

It seems to us that the market's recovery to-date has been driven primarily by investors' realization that their worst fears are unlikely to come to fruition. The markets have stabilized and it appears that we are now operating in a more rational environment. We believe that corporate earnings and economic conditions must demonstrate substantive improvement if further advances in stock prices are to be sustained. Put another way, data that is "less bad" will no longer be good enough to push the stock market higher.

We expect economic conditions to improve through the balance of 2009 and for evidence of a sustainable economic recovery to emerge as we enter 2010. The near-term picture is quite murky and we should expect improvement in economic conditions to reveal itself in an uneven and choppy fashion, potentially leading to another bout of elevated market volatility. Investor patience will likely be tested in the coming months, as it will take some time for the natural economic cycle to run its course and cleanse the system of the after-effects of the credit bubble.

However daunting the economic challenges may seem at this moment, it is important to remember that the stock market customarily climbs a "wall of worry" in the early stages of a sustainable market advance. We believe that the enormous decline in stock prices since October of 2007 has set the stage for long-term improvement in equity performance over the next 5-10 years (please see our *First Quarter 2009 Market Commentary* at www.woodandwhite.com for more background on our optimistic long-term view) . We are positioning our clients' accounts accordingly and would view any meaningful near-term stock market decline as an opportunity to add to our common stock holdings.

We welcome your comments and questions at any time. Thank you for your friendship and for your support of our firm.

Sincerely,

WOOD & WHITE INVESTMENT ADVISORS, L.L.C.

Charles B. White, CFA **Gorham B. Wood**