

WOOD & WHITE

Investment Advisors, LLC

Market Commentary

January 18, 2011

To our clients and friends:

As discussed in our third quarter market commentary, the stock market languished in negative territory during the summer months of 2010, as worries over weak global economic growth and fears of a “double dip” recession weighed on stock prices. Powerful stimulus efforts by the Federal Reserve, in the form of direct purchases of U.S. Treasury debt, helped ignite a surge in stock prices beginning in August that persisted through the remainder of the year. Congressional action to extend the Bush-era tax cuts through the end of 2012, combined with evidence of continued steady improvement in both economic and corporate fundamentals, fed a rally that accelerated towards year-end, with major market indices surging more than 6% higher in the month of December alone.

For the fourth quarter of 2010, the S&P 500 Index posted a total return of 10.57%, while the Dow Jones Industrial Average posted a total return of 8.01%, marking the second consecutive calendar quarter of near double-digit gains for the major indices. The strong second half of the year pushed U.S. stocks to their second consecutive calendar year of double digit gains, with the S&P 500 Index and Dow Jones Industrial Average both posting total returns of 14% or more for 2010.

As risk aversion gradually abated through the fourth quarter and investors focused more on the brightening economic outlook, cash fled from the Treasury market in search of opportunity. Treasury yields, which move in the opposite direction to bond prices, moved higher as funds flowed out of the “risk free” asset class in search of higher returns. The yield on the 10-Year Treasury note rose from below 2.5% at the outset of the quarter to over 3.5% in December, before closing near 3.3% at year end, resulting in negative total returns for bonds in the fourth quarter. Even with this quick rise in yields in the fourth quarter, the 10-Year Treasury note posted a positive total return in 2010, with interest rates remaining at historically low levels.

Our stock portfolios are primarily populated with large, financially stable, dividend-paying companies that, we believe, will provide both strong long-term performance and durability in the years to come. However, the strongest performers in the early stages of this recent recovery have been the highest-beta issues, such as small and mid-cap companies and companies of a cyclical nature. While our clients’ portfolios posted positive returns across the board in 2010, our equity performance generally lagged that of the overall market.

Indeed, our ten largest equity holdings as a firm - mature, durable businesses with an average market capitalization of over \$175 billion - experienced average price

appreciation of only 4.4% in 2010. We are not concerned with the recent performance of these holdings. Rather, we are heartened by the financial performance and attractive valuations for these companies and feel that our clients' potential investment returns increase with each calendar quarter of strengthening fundamentals.

A review of our largest common stock holdings reveals the basis of our optimism for the future. Here are some of the basic characteristics of our top ten equity holdings:

- **Higher Projected Earnings Growth** – An average projected growth in annual earnings in 2011 of 14.6% versus 13.3% for S&P 500 companies overall.
- **Higher Dividend Payouts** – An average dividend yield at year-end of 2.8% versus 1.9% for the S&P 500 and a 10-Year Treasury bond yield of 3.3%.
- **Higher Dividend Growth** – An average increase in projected dividend payouts of 11.3% by year-end 2010 versus an increase of 8% for publically traded U.S. corporations overall (according to a study by Standard & Poors).
- **Room for Future Dividend Growth** - Nine of Wood & White's ten largest holdings pay out an average of 35% of their earnings in dividends, which speaks to both the sustainability of current dividend levels and the potential for meaningful dividend increases moving forward.
- **Quality and Growth at a Market Multiple** – An average multiple of price-to-2011 projected earnings of 13.3, identical to the multiple for the S&P 500 Index (a historically reasonable valuation level for the market overall).

As government stimulus is inevitably withdrawn from the financial system and global budget deficits force significant cuts in government spending among industrialized nations, we expect interest rates to rise and expectations for future economic growth to decline. We believe that we are invested in companies that have the financial strength, flexibility and durability to continue to return cash to shareholders in such a scenario, through further dividend increases and share repurchases.

The unprecedented government intervention into the financial markets over the past couple of years has helped provide support for prices of assets of both high and marginal quality. When government support is withdrawn, and markets are forced to stand (or fall) on their own, we believe that our penchant for high-quality dividend growth will reward our clients for their patience, in both relative and absolute terms.

We welcome your comments and questions at any time.

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



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