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**McCullough &  
Associates LLC**  

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**INVESTMENT COUNSEL**

As was the case in the prior quarter, negative market results were in large part driven by angst over the prospects of a global economic recovery. Investors again were driven to the sidelines as the influences of short selling held the firm upper hand with major market indices slumping to levels that retested the 2008 lows.

However, economic events were quite different than those of 2008. While financial conditions remained bleak, stability returned to the global banking system due in large part to government intervention protecting against the further demise of large financial institutions such as Lehman Brothers or Bear Stearns.

Concerns rightfully remained on the minds of investors: spiraling unemployment, sagging real estate prices (both residential and commercial) and worry over corporate earnings and the future business outlook were among others. The de-leveraging of excessive extension of credit also weighs heavily on the prospects for economic recovery.

This insurmountable “wall of worry” was fueled by fear, an almost complete seizure of global economic activity and ongoing media reports telling us conditions would only worsen. We tried to navigate this morass in a pragmatic fashion looking for signs of optimism; “real” investors seemed inspired to re-enter the market perceiving what Federal Reserve Chairman Bernanke described as “green shoots” to be an indication of the economy bottoming. We saw positives such as the 2008 fourth quarter efforts of the Fed to lower interest rates and add banking reserves which are now reflected in the growth of the velocity of money. As the financial markets recover and the massive government stimulus programs take hold we expect an upturn in consumer and corporate confidence with a significant recovery in global GDP.

This constructive outlook does not make us “bullish” with expectations of an immediate market recovery; conversely we do not subscribe to a scenario of doom, gloom and a prolonged recession or pending depression. We continue to believe in our value strategy and feel confident that the recent experience and our performance through what has been the most difficult economic and financial period of current times will allow us to identify and capitalize on profitable opportunities.

We sincerely appreciate your business and also thank those of you who have referred us new clients during these difficult markets.

***McCullough & Associates LLC***