



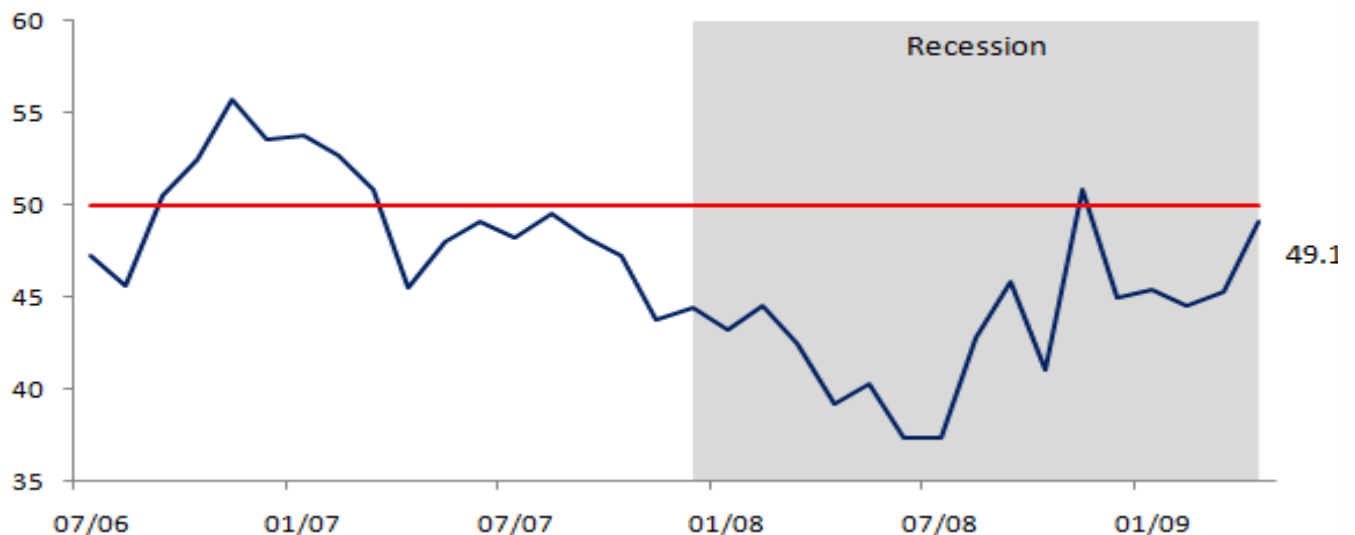
March 31, 2009

Fear and Greed, Earnings and Dividends – a Kaleidoscope of Drivers

As the bear market continued to eat away at investor wealth over the first two months of this quarter, March finally gave investors a trace of hope and optimism that perhaps, just perhaps, the market had bottomed out after a long grueling downward slide from its high over a year ago. While the predominant question was whether the bottom had been reached, the proliferation of conflicting information provided mixed answers.

The short term volatility is unnerving as investors make efforts to sort out the stream of global information that surfaces daily. Stimulus package developments, G20 summits, failing industries, falling house prices and massive unemployment is all consuming. Despite this stream of poor news, the odd glimmer of light has surfaced in specific economic numbers which have surprised the pessimists, and provided fuel for the optimists. *Investors Business Daily* survey of economic optimism increased for the second month in a row and is now at its second highest level (49.10) since the start of the recession. Since the current level remains below 50, it still indicates that consumers are pessimistic on a net basis. However, compared to where this indicator was back in July it has shown steady improvement.

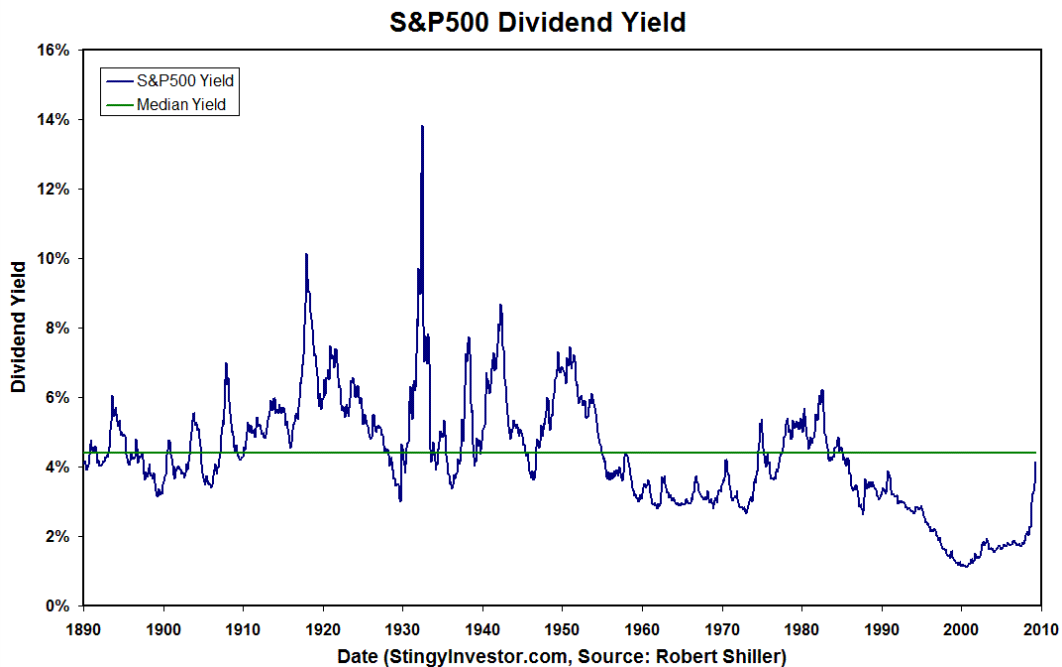
IBD/TIPP Economic Optimism: July 2006 - April 2009



We have now concluded the first quarter of 2009, and we wait with baited breath to see the extent of earnings erosion that has occurred. There is no question the picture will not be rosy. The central question is how bad will it be? Better or worse than expectations? The result will drive market reaction, despite the notion that the current economic malaise is fully priced into the market. Fear and greed will dictate the short-term reaction of the market; earnings and dividends are what we are buying for the long term.

Companies are striving to conserve cash and, in many instances, have cut dividends to achieve this objective. Standard and Poor's indicated that companies made a total of \$77 billion in dividend cuts in the first quarter of 2009, making it the worst quarter on record for corporate dividends. From banks to manufacturers to stalwart giants like General Electric, investors witnessed reduced dividend streams. Companies that maintain their dividends because they are confident enough to believe that the future is sustainable will translate into excellent long term investments.

At Brownstone, our focus on these investment options is simple. Find companies that are sizable within their industry, are priced right, generate a dividend, and are currently paying out less than 65% of their earnings, thus retaining cash to grow the business. Below is a chart of dividend yields since 1890.



It might surprise you, but dividends are the primary source of long-term returns for stock investors. From 1900 to 2008, stocks provided average annual real returns of 6.0% including reinvested dividends. However, without the dividends, stocks only gained 1.7% a year over the same period. We think companies with the strength to maintain dividends through this cycle will reward investors handsomely.