

October 6, 2009

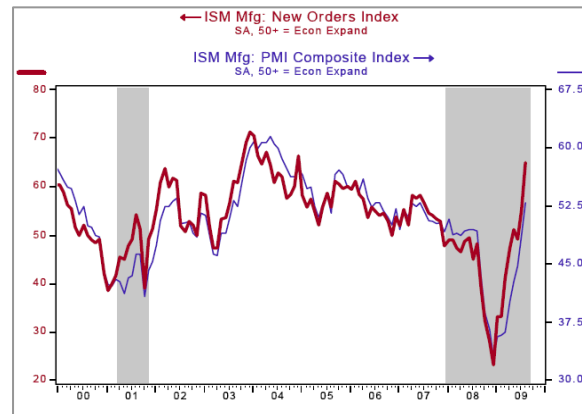
RE: Third Quarter 2009

If the economy and the stock market could talk they might use Mark Twain’s famous quote stating: “The reports of my death are greatly exaggerated.” However, realizing that actions speak louder than words, the market likely would direct your attention to the top chart at right which shows the 58%+ rise since the lows in March. The economy could reference the bottom chart showing the ISM Composite Index rebounding sharply to over 50 (indicating economic expansion). Our newsletter provides more details on both of these subjects, but suffice it to say that despite the doomsday predictions, we are all still here. Bruised and battered perhaps, but moving forward nonetheless.

No doubt we have spent an inordinate amount of time over the past several quarters discussing the increasing role of government and “politely” critiquing the policies of our representatives in Washington. Lest we leave you wanting for more, we are going take one more crack at it.



Source: Strategas Research Partners

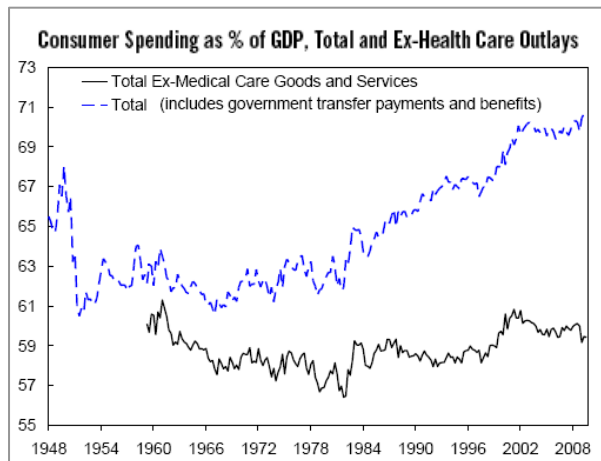


Source: Strategas Research Partners

American Poet Richard Armour once said that “Politics, it seems to me, for years, or all too long, has been concerned with right or left instead of right or wrong.” Never has this been more evident than with the recent debate on healthcare reform in this country; and this is not meant to be a partisan observation. We have read dozens of reports and listened to countless

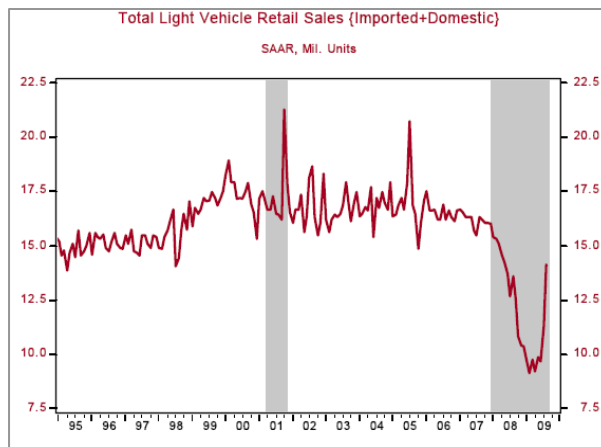
experts talk about the merits of this bill or that bill, this amendment or that one. It seems that no one has taken the time to step back from the chaos of it all to ask a simple question – does this make common sense? Is this practical? Does this improve upon the current system? Perhaps the reason they don't ask these questions is because almost universally the answer would be no. Until we have informed consumer choice, where price and quality are considered in healthcare decisions, we are simply spinning our wheels. The cost of a hospital stay or a certain standard operation should not depend on what insurance company you have. When you get your car fixed, does the repairman say: "Well Mr. Smith this job will cost you \$3,000 if you have Nationwide but \$5,000 if you use Allstate." The repair cost is what it is. You either pay for it yourself or submit the claim to your insurance company. Now aren't you glad we decided not to deprive you of our "Washington Moment" this quarter.

In all seriousness, the outcome of this debate has huge implications not only for our deficit and government spending, but also for consumers and small businesses. Healthcare is a tremendous expense for individuals in this country and in fact has accounted for nearly all of the increase in consumer spending as a percentage of GDP over the past 20+ years (see chart at right). For all the talk about the consumer spending binge that has occurred over the past several decades, pushing consumption up to 70% of GDP (dashed line), consumer spending, excluding healthcare costs, has remained fairly constant at around 59% (solid line). The implication is that we are reducing the potential growth in this country with an increasing percent of income spent on medical care.



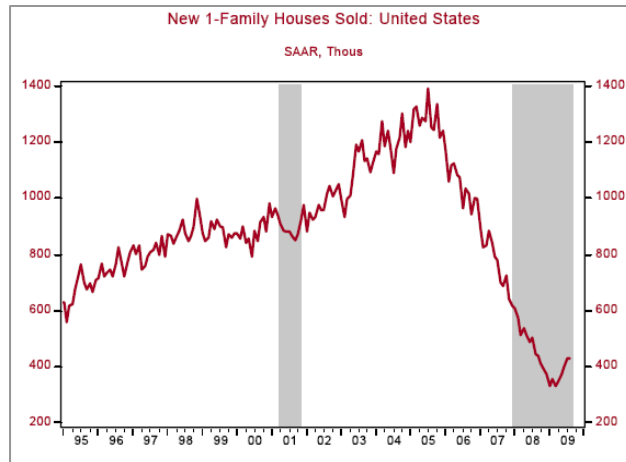
Source: BEA, Citi Global Markets

Moving on to the broader economy and the market recovery, the most common question we get from people when talking about our forecast for positive 3-4% GDP growth in the second half of 2009 is – How in the world is that possible? It is clear that the average person does not feel as though we are experiencing a recovery. This is not surprising given the unemployment rate is perilously close to 10%. However, when you combine significant government spending,



Source: Strategas Research Partners

a ramp-up in vehicle production from cash for clunkers (see chart above) and a modest uptick in housing (see new family home sales at right), we believe the result is a nice 3-4% annualized real rate of growth for the economy. It's important to recognize as well that while this may seem like a high number, it is actually quite low in the context of a rebound from the recession we just experienced. The last time nominal (not adjusted for inflation) GDP growth fell below 0% was in the 1950's, and growth rebounded up 20% in the following quarters. With that frame of reference, we believe 3% real GDP and maybe 5-6% nominal GDP is very achievable.



Source: Strategas Research Partners

Sincerely,

The Greenwood Capital Investment Team

Philip Bell, Will Bond, Cheves Boyce, David Halloran, John McAlhany, Michael Nix,
Ashley Sherman, Walter Todd and John Wiseman

The information contained herein has been obtained from sources believed to be reliable but cannot be guaranteed for accuracy. The opinions expressed are subject to change from time to time and do not constitute a recommendation to purchase or sell any security nor to engage in any particular investment strategy.