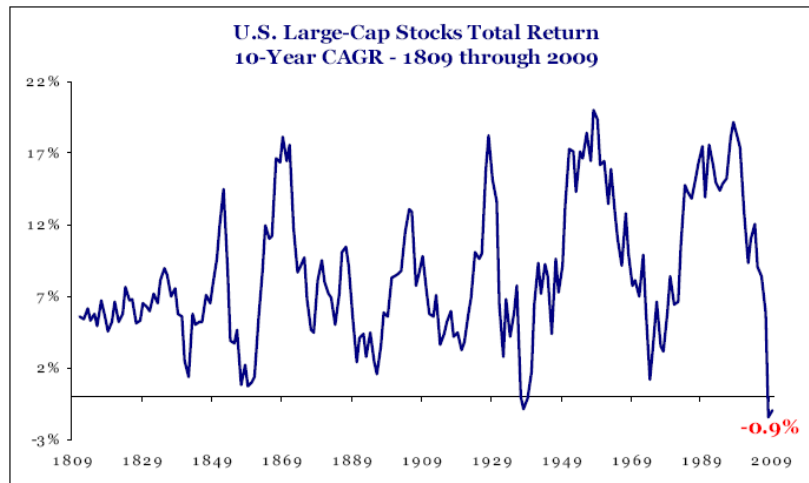


January 7, 2010

RE: Fourth Quarter 2009

The decade of the 80's had its share of issues – think about it – we started with a hostage crisis in Iran and ended with an earthquake at the World Series. In between, we had the market crash of 1987, the culmination of the Cold War, the S&L Crisis - yet stocks still managed a healthy 17% annualized return. The

90's brought us the first Bush administration, the first Iraq War, the Russian and Asian debt and currency crises, Y2K – still stocks posted a breathtaking 18% annualized return. Then we come to the 00's (or “the naughts” as Barron's named the decade recently). The decade of bubbles

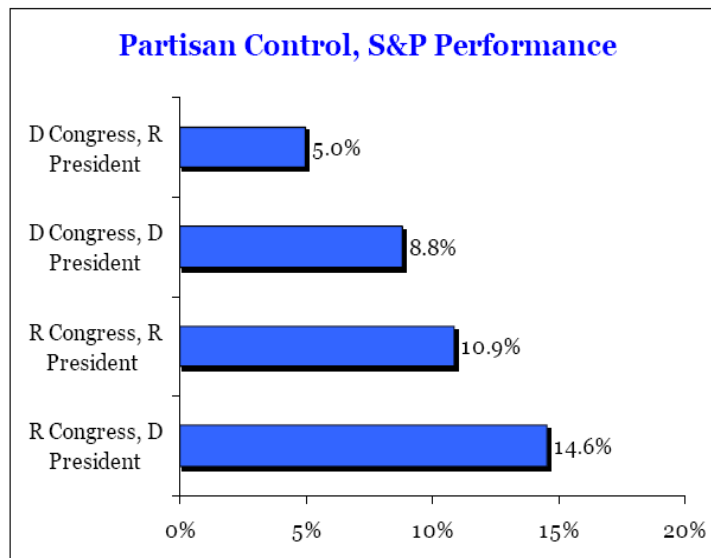


Source: Strategas Research Partners

started with the tech and telecom bust, followed by the housing boom and bust and punctuated by the credit meltdown in 2008. The asset depreciation associated with this period is starkly revealed in the bookends of the last decade provided by AOL. In 1999, AOL announced the acquisition of Time Warner for \$167 billion in stock. Last month, AOL was spunoff from Time Warner with a market cap of \$2 billion. All we can say is Wow! Despite the decade ending on a positive note for the markets in 2009, we must admit that from an investment perspective, the professionals at Greenwood Capital are happy to say good riddance to “the naughts”. As you can see from the chart above, this decade goes on record as the worst 10-year period for stocks since the early 1800's. Before you accuse us of being pessimists, there is a silver lining to this story. Look at what historically happens after these dreadful periods; three cheers for the coming decade of the “teens”.

Moving on from our ode' to decades past to current circumstances, we have written at length in these pages over past quarters about the reckless and irresponsible governing occurring in Washington. This was punctuated late in the year by the back-room deal that was cut with Senator Nelson (D-Nebraska) to get his vote for the recently passed Senate healthcare bill. You may not be aware, but we (collectively the country ex-Nebraska) have agreed to pay the cost of that state's Medicaid expansion in perpetuity – an estimated \$100 million over the next decade (you may want to re-read that sentence). This is politics at its absolute worst.

Combine that with a procedural vote at one o'clock in the morning and we haven't seen a midnight run like this since the Colts left Baltimore for Indianapolis in the middle of the night in 1984. We can only hope that politicians will be held accountable for their actions in 2010. After all, despite what our or your political leanings might be, the chart at right would seem to indicate that markets do better with split government when a Democrat is in the White House (see bottom bar).



Source: Strategas Research Partners

Changing to more pleasant conversation, it is interesting to talk to clients about the market in 2009. Everyone seems thankful for the positive returns but, almost to a person, is in disbelief about how it happened and is very uneasy about the prospects for the future. This is a healthy skepticism that we share, but as investment managers, it is necessary to discern the market opportunities given the long-term challenges that so many are focused on today. The economic recovery we discussed in the second quarter letter to you has continued through the second half of 2009 and we predict it will follow through in 2010. This topic is covered more fully in our newsletter, but the bottom line is that this near-term cyclical rebound is drowning out concerns about increased government spending and rising inflation.

Speaking of inflation, we have to spend just a few minutes on gold. It is often offered by various market participants that gold is a protection against inflationary forces. And certainly gold and other hard assets enjoyed an exceptional performance over the past decade while stocks suffered. However, it is important to examine where we are in the cycle of gold performance. Looking back over history, gold has significantly underperformed stocks going back to 1925. According to Strategas Research Partners, \$1.00 invested in gold on 12/31/25 would be worth \$54 as of 12/31/09. Compare this to \$1.00 invested in Large-Cap Stocks



worth \$2,587 over the same time period. Also remember, that after outperforming stocks during the 70's and peaking in 1980, gold traded below this peak level until 2007, over 25 years. This exercise is not meant to dismiss gold as an asset class, far from it, but simply to try to keep things in perspective. The gold market is relatively small compared to other investable assets and therefore can be moved violently both up and down. Just something to remember as we all head to our next Tupperware, I mean gold party.

In closing, 2009 was certainly a wild ride for investors and the world. We seemingly looked over the edge of the cliff in early March as the S&P 500 cascaded down to levels not seen in over a decade yet here we stand up over 26% for the year. Agree with it or not, the fiscal and monetary responses to the crisis pulled us back to more stable ground. Some would argue that as a result of the massive injection of liquidity and stimulus around the world, the ground we are standing on currently is not very solid. As Winston Churchill said, "a pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty." We prefer to be optimists at this point, recognizing as we highlight in our newsletter, there are challenges that will need to be addressed in the coming years.

Sincerely,

The Greenwood Capital Investment Team

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