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Quarterly Update **Third Quarter 2009**

Dear Hawk100 Member.

We at Hawk100 hope this letter finds you and your family are well as you prepare for the holidays.

The enclosed information contains your Wealth Alignment Report, a quarterly discussion and presentation of your accounts to which you have entrusted Hawk100 with discretionary authority. As always, we welcome a personal discussion with you regarding the contents herein. Please consider the following comments together with your Wealth Alignment Report.

Your portfolio rose during the quarter led mostly by another robust advance in stock markets on further improvement in certain economic indicators. In our previous letter to you, we discussed how rare the second quarter's stock market return, 15.9% per the S&P 500 Index, appeared. Surprisingly, 15.6% in the third quarter nearly matched it. At the start of the quarter, Hawk100 forecast a 1% chance that stocks would consecutively reach such lofty heights.

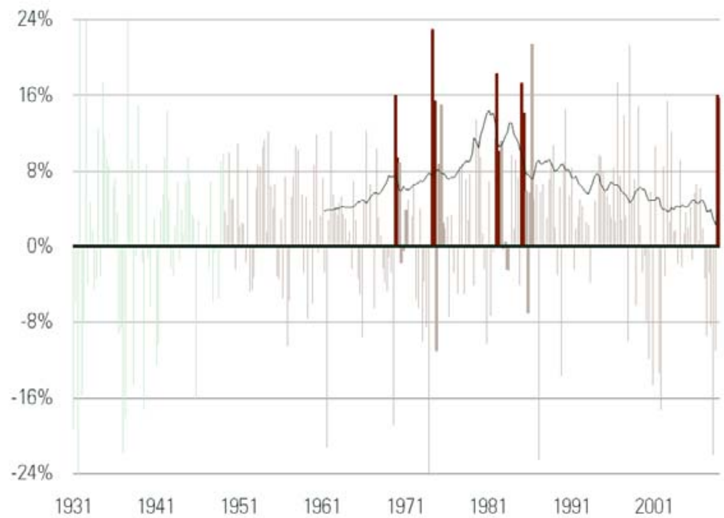
The following table ranks the ten highest six-month periods in U.S. stock market history since 1930 with the recent period ranking sixth. Note, in nearly every case, stocks continue rising in the subsequent year. If past trends repeat, a simple regression favorably forecasts that stocks could advance 28% next year.

Top Ten Historic U.S. Stock Market Returns

Date measured	Trailing 6 months	Subsequent 12 months
September 30, 1933	70.1%	-1.9%
June 30, 1933	62.9%	-2.4%
September 30, 1938	43.0%	6.2%
June 30, 1975	41.8%	14.0%
December 31, 1932	40.7%	63.7%
September 30, 2009	***34.0%***	
March 31, 1986	33.7%	26.2%
March 31, 1975	32.7%	28.3%
December 31, 1982	31.9%	22.6%
September 30, 1935	30.9%	27.2%

Source: Interactive Data, Standard & Poor's

The graph, above right, shows quarterly stock index returns since 1930. Highlighted bars depict periods that resemble current conditions with statistical significance. 1970, '75, '83, and '86 all showed similar patterns of consecutively strong quarters after a negative period. In each prior occurrence, subsequent year returns were surprisingly positive. Again, simple regression favorably forecasts that stocks could return 15.2% in the year ahead.



Source: Interactive Data, Dow Jones Industrial Average 1931—1949, Standard & Poor's 500 1950—2009.

Yet, past performance decidedly does not guarantee future results. A simple regression of past results is informative but gives scant evidence as to actual returns. Economic and fundamental factors tend to be more relevant indicators of market performance.

Interest rate trends form a key input to fundamental and economic models alike. The line shown on the foregoing chart presents yields on ten-year U.S. Treasury notes since 1960, the earliest data available. Rising yields increase discount rates that valuation models apply to expected cash flows, thereby reducing intrinsic value estimates. Economically, rising yields increase financing costs and depress corporate earnings. Falling yields have the inverse effect typically driving market values higher. We examined the trend in yields during the periods highlighted. Indeed, yields consistently fell when subsequent returns were highest. The 10-year Treasury note closed September 2009 yielding a paltry 3.5% and further declines appear constrained since the Fed already institutes a near-zero target rate.

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Fundamental valuation remains the cornerstone of the Hawk100 security selection model. Particularly in the current economic environment, we seek to invest your Portfolio in securities that offer reasonable prospects for growth relative to their current values.

When investing in income securities, such as bonds and preferred stocks, Hawk100 evaluates the securities based on their yield relative to their duration. Yield is a return indicator, and duration is a risk indicator for price sensitivity to changing yields. Hawk100 seeks securities that offer a high yield relative to a low duration. As desired, the relative ratio of your Portfolio income yield to duration is above the benchmark index ratio.

In a similar fashion for growth securities, like stocks, Hawk100 evaluates securities based partly on their growth relative to their current valuation as estimated by the price to earnings ratio. Hawk100 prefers to hold securities with low “PEG” ratios, the relationship of the price to earnings ratio divided by the issuer’s forecast growth rate. Your portfolio PEG ratio is below the benchmark ratio.

Thank you for your loyal Hawk100 membership. We appreciate the opportunity to serve you.

Warmest regards,
Richard Clemens, CFA
President
Hawk100

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