



Mid-Quarter Newsletter

August 15, 2009

From My Corner

Jeff Mengis – President

Market Comments: Over the last 5 months, the S&P 500 has surged 50% from lows set on March 6th of 666.79 to the current level of 1,004.09. The recovery in the markets has been fairly typical, in that financial and cyclical companies have been market leaders. Much of the rally has been a result of renewed confidence in the nation's banks and financial system in general. In addition, bottom-line profits have been mostly better than expected, largely due to aggressive cost cutting efforts, which is common in the first leg of a recovery. However, in order for the rally to continue, companies will need to grow profits by increasing revenues. Given the weakness of the U.S. consumer, we feel companies that are positioned to grow through sales abroad or new product cycles will be strongest over the coming months.

In the fixed income markets, we are seeing some opportunity in short-term corporate bonds that mature in 4-6 years. With the Federal Reserve and U.S. Government pumping money into the system at unprecedented rates, inflation is a possible concern. Therefore, we have been buying investment grade bonds with shorter maturities that should experience lower volatility than longer-term bonds.

Given the volatility of the past year, we think it is important that investors not get too pessimistic when assets are down and not get overly excited when prices have had a good run. We encourage you to continue to work with us to determine an asset allocation that you are comfortable with and that achieves your long-term financial goals.

We have recently received a number of referrals for which we are very grateful. Referrals are the greatest compliment and truly appreciated.

Investment Focus:

DODGE & COX FUNDS

With bank money market rates yielding next to nothing, we thought it might be a good opportunity to highlight a bond fund rated five stars by Morningstar that has a 5.7% yield as of July 31st. The **Dodge and Cox Income fund (DODIX)** invests about half of its assets in short term diversified corporate bonds, and the other half in U.S. government treasuries and agency debt. Over 87% of the fund's \$15 billion in assets are in investment grade bonds (rated BBB or higher). During the past year, the fund experienced a peak to trough decline of about 12%, which is reasonable given the historically high volatility of the past year. The average maturity is 6.5 years and the effective duration is 3.7 years. The relatively short maturities and asset credit quality of the fund are closely aligned with our individual positions in the fixed income market.

The Dodge and Cox Income fund has recently benefitted from inefficiencies that were created in the corporate and mortgage backed bond market over the past year. For certain accounts, this fund may provide greater diversification and a more efficient way to capture the return of this asset class. If you have money to put to work that is not earning much in a bank account, the Dodge and Cox Income fund may be a good way to increase your cash flow.

DODGE & COX INCOME FUND
as of 14-Aug-2009



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