# BEAVER COUNTY RETIREMENT SYSTEM

## Investment Review - Third Quarter 2009

Investment Building
239 Fourth Ave., Suite 1302
Pittsburgh, PA 15222
Toll free: 800.854.3971
Local: 412.765.2771
Fax: 412.281.2159

CIM INVESTMENT MANAGEMENT, INC.

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➢ *Dow, Up 15%, Has Best Quarter Since '98*


Prepared by

CIM INVESTMENT MANAGEMENT, INC.

**CIM INVESTMENT MANAGEMENT, INC.**

Investment Building, 239 Fourth Ave., Suite 1302, Pittsburgh, PA 15222

October 15, 2009

Beaver County Retirement System
County Courthouse
810 Third Street
Beaver, Pennsylvania 15009

Dear Members of the Board,

It is usually foolhardy to try to fight the Fed. Once again the Federal Reserve, this time in conjunction with the Treasury department, has injected enormous liquidity into the financial system. This massive attempt at re-inflation is bearing fruit and we have already witnessed a huge rally in corporate debt and equity securities. Given that the government has a nearly unlimited capacity to add money to the system (after all they can simply print more if they wanted to), and given that in the past such re-inflation attempts have generally succeeded, we believe that it is best to stay with what has worked for the time being.

Therefore, we are maintaining an over-weight in equities in balanced accounts, are modestly tilting stock portfolios toward cyclical names and, with respect to bonds, continue to maintain an overweight in spread sectors. These tactics have proved to be advantageous to our clients this year and we anticipate this trend will, in a highly volatile manner, continue.

Although we are currently positioned to benefit from the "re-inflation trade", we are also mindful of the fact that the easy money policy could be quickly reversed. We are constantly monitoring economic and market developments and any substantial change in policies or the economic environment may alter our basic strategy.

Yours very truly,

CIM INVESTMENT MANAGEMENT, INC.

Andrew C. Fisher
President

# 3rd Quarter Recap and Outlook – June 30, 2009 to September 30, 2009

## Recap

The "official" beginning and ending points of recessions are determined by the Business Cycle Dating Committee at the National Bureau of Economic Research. Although the worst recession since WWII has not "officially" ended, one could not necessarily ascertain that fact from the explosive rally in financial markets during the 3rd Q of 2009. Despite a multi decade high in the unemployment rate (9.7%), risky assets such as stocks, corporate bonds and commodities soared in anticipation of a rebound in economic activity. Markets took their cue from a preponderance of evidence that revealed that growth likely resumed in the 3rd Q (which means that the recession probably ended sometime during the quarter). These positive indicators included a jump in the ISM manufacturing index (from 44.8 in June to 52.9 in August), an improvement in New Home Sales and back-to-back solid readings on Industrial Production in July and August (1.0% and 0.8%, respectively). In addition, evidence began to emerge that corporate profits may exceed expectations as productivity improvement plans began to filter down to the bottom line.

**Index Returns**

| | Quarter 6/30/09-9/30/09 | Year to Date 12/31/08-9/30/09 |
|---|---|---|
| S&P 500 | 15.61% | 19.26% |
| S&P MidCap 400 | 19.98 | 30.14 |
| S&P SmallCap 600 | 18.66 | 19.46 |
| Russell 2000 | 19.28 | 22.43 |
| Dow Jones Industrials | 15.82 | 13.49 |
| NASDAQ | 15.91 | 35.59 |
| MSCI EAFE | 19.55 | 29.23 |
| Barclays Aggregate | 3.74 | 5.72 |
| Barclays Gov./Credit | 4.16 | 4.74 |

The S&P 500 stock index rallied 15.61% during the quarter and all major domestic stock indices followed suit. Furthermore, given the coordinated, global nature of the effort to re-inflate economic activity by various governments and central banks, it was not surprising that major international stock markets also rallied vigorously. The MSCI EAFE international stock index soared 19.55% during the quarter. As has been the case since this bull market began in March, cyclical sectors such as materials, industrials, financials and consumer discretionary outperformed dramatically during the quarter whereas defensive sectors such as utilities and healthcare lagged once again.

Bonds, on average, did not fare anywhere near as well as stocks however. Yields on treasury securities declined modestly during the quarter as the Fed continued to hold the Fed Funds rate at 0.25%. The ten year treasury note yield fell to 3.30% from 3.53% on June 30 after beginning the year at 2.21%. Corporate debt continued to experience a spectacular year as spreads, in general, tightened during the quarter. Year to date, corporate bonds have now outperformed treasury securities by nearly 20% (17.11% vs. -2.29%). In addition, CMBS were among the best performing segments within the investment grade universe as investors became more confident that commercial mortgage defaults would not increase apocalyptically as had been previously assumed and discounted.

## Outlook

Clearly, risky assets have rebounded dramatically from the extreme drubbing they took last year and early this year. All sorts of financial instruments are now being valued based on a logical and probably reasonable set of expectations and assumptions as opposed to based on emotional or psychological factors which exaggerated the downside probabilities. Given a more normal investment mindset and given a more normal set of economic and investment interrelationships, the question for investors now is whether the general pattern of returns over the last six months is likely to continue. That is, with respect to stocks, the question is "Will cyclical industries continue to outperform?" and with respect to bonds the question is "Will spread sectors continue to outperform?"

Our answer to both queries is affirmative but with the caveat that the path of outperformance will likely be more choppy and less intense than the recent past. This analysis is another way of saying that despite the fact that the easy money has been made (if one were positioned correctly) there is still ample reward ahead for patient investors. We base this conclusion on the expectation that the global economy will continue to gradually improve and that such improvement will continue to attract capital to segments of the economy that are relatively more leveraged to the economic cycle.

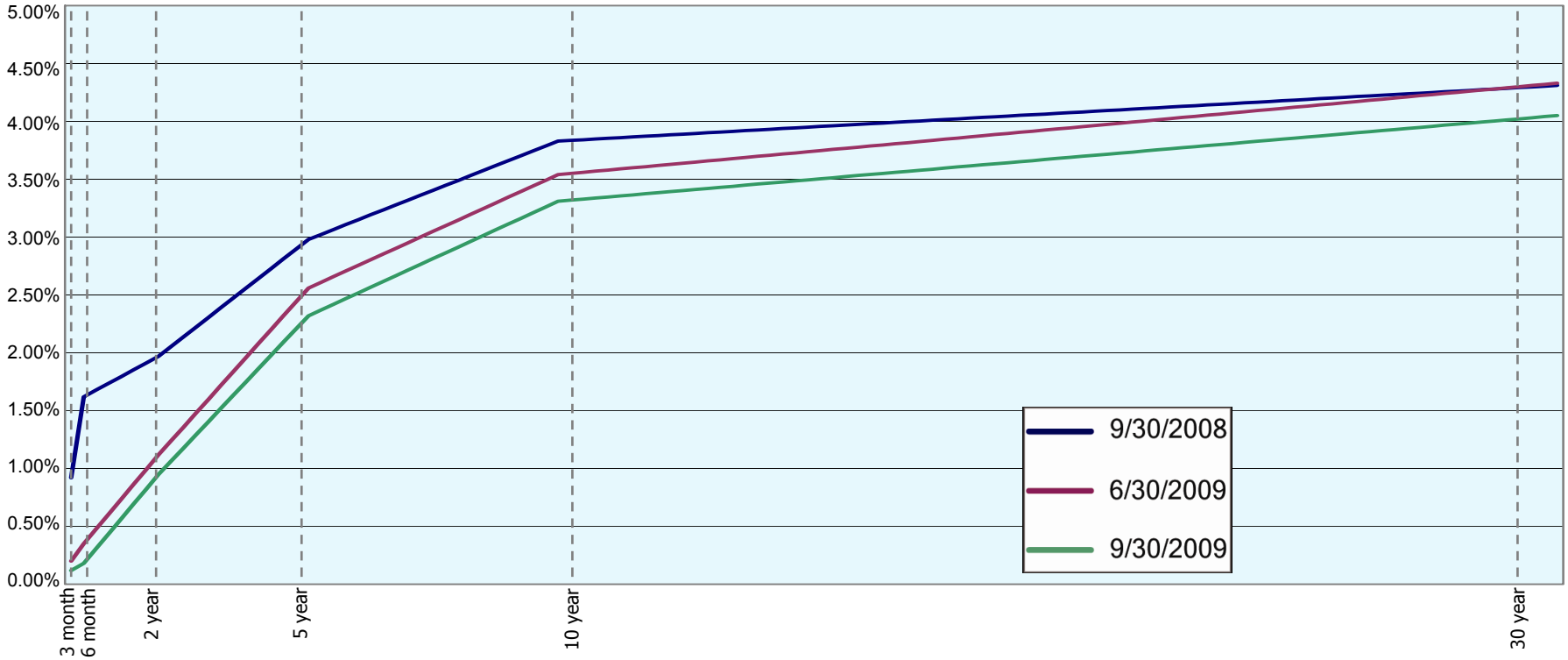
Based on this logic we continue to overweight equities in balanced accounts and continue to maintain a substantial overweight in corporate bonds within fixed income accounts. Our basic strategy is to tilt portfolios toward assets, sectors and industries that will continue to benefit from the ongoing global economic recovery. We believe that we are still in the early stages of this revival and that as growth becomes more certain and entrenched that cyclically exposed securities should continue to outperform. Given the growth in earnings that is likely next year we believe that the S&P 500 has upside potential to 1250 or so in the next few months. We also believe that a general increase in interest rates is likely and that 10 yr. treasury notes may yield more than 4.0% sometime next year.

Despite our constructive economic outlook we are mindful of the many potential pitfalls that remain. Therefore, we continue to monitor economic data and market developments very carefully. Any change to our basic thesis would cause us to re-evaluate.

Source: Bloomberg Financial Markets – CIM

# U.S. Treasury Yield Curve

## Third Quarter 2009




| | 9/30/2008 | 6/30/2009 | 9/30/2009 | Quarterly Change | Annual Change |
|---|---|---|---|---|---|
| 3 Month | 0.92% | 0.20% | 0.12% | (0.08%) | (0.80%) |
| 6 Month | 1.62 | 0.35 | 0.18 | (0.17) | (1.44) |
| 2 Year | 1.97 | 1.12 | 0.95 | (0.17) | (1.02) |
| 5 Year | 2.98 | 2.56 | 2.32 | (0.24) | (0.66) |
| 10 Year | 3.83 | 3.54 | 3.31 | (0.23) | (0.52) |
| 30 Year | 4.31 | 4.33 | 4.05 | (0.28) | (0.26) |

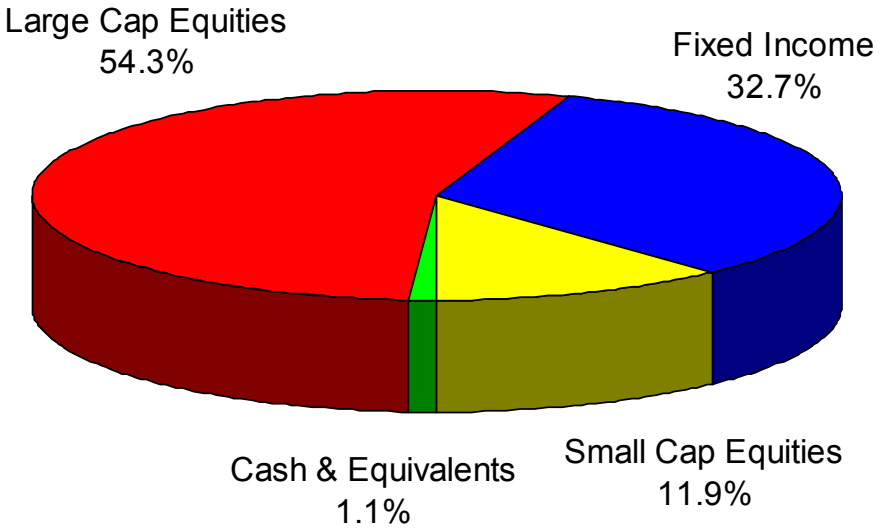


Source: Bloomberg Financial Markets – CIM

# Beaver County Retirement System – Total Portfolio

As of September 30, 2009

**Asset Allocation**




**Portfolio Value on 6/30/09** .....$74,691,496.91

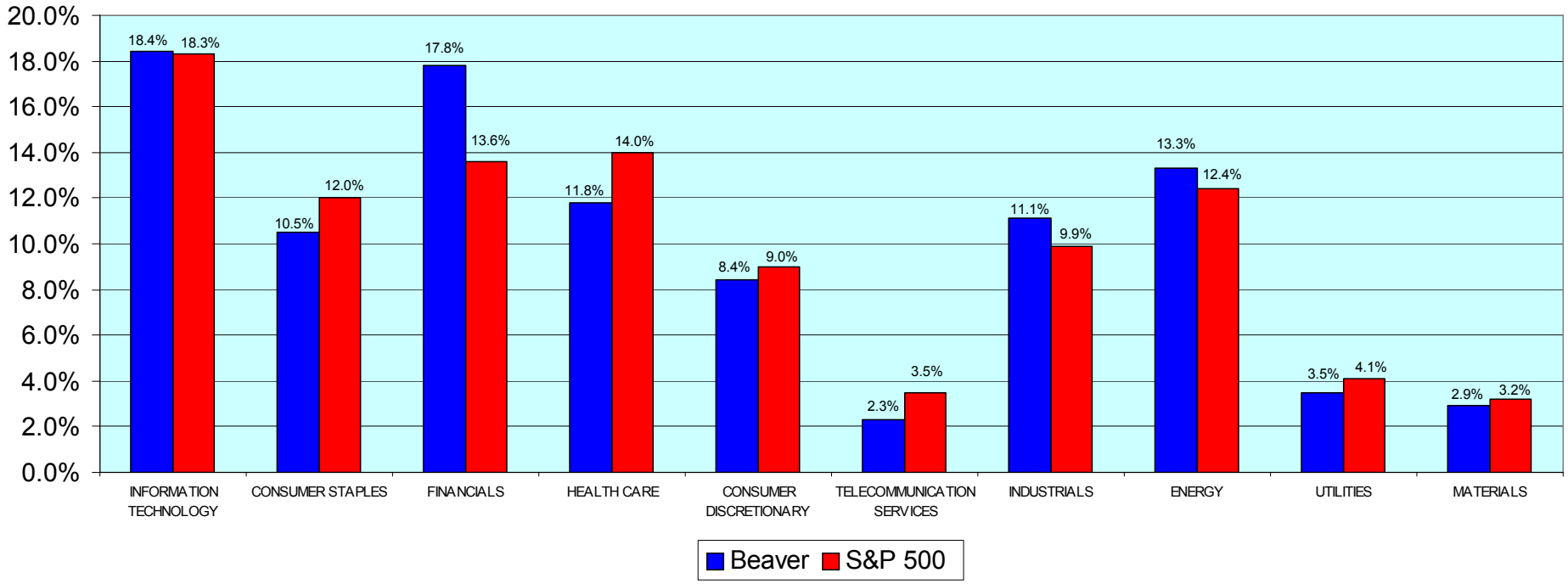
| | |
|---|---|
| ***Contributions*** | *18,078,232.12* |
| ***Withdrawals*** | *(14,821,416.43)* |
| **Realized Gains** | 153,411.99 |
| **Unrealized Gains** | 8,555,674.74 |
| **Interest** | 342,664.75 |
| **Dividends** | 271,052.29 |
| **Change in Accrued Interest** | 5,375.33 |

**Portfolio Value on 9/30/09** .....$87,276,491.29

**Total Investment Gain for Trailing 3 Months**.....$9,328,179.09

| | *Beginning Balance* | *Ending Balance* | *Total Return* |
|---|---|---|---|
| Third Quarter 2009 (6/30/09 to 9/30/09) | 74,691,496.91 | 87,276,491.29 | 11.39% |
| Trailing 1 Year (9/30/08 to 9/30/09) | 86,910,665.14 | 87,276,491.29 | 3.56% |
| Inception to Date (12/26/95 to 9/30/09) | 29,690,332.35 | 87,276,491.29 | 6.62% annualized |

# Beaver County Retirement System
## Large Cap Equity Industry Sector Diversification
As of September 30, 2009

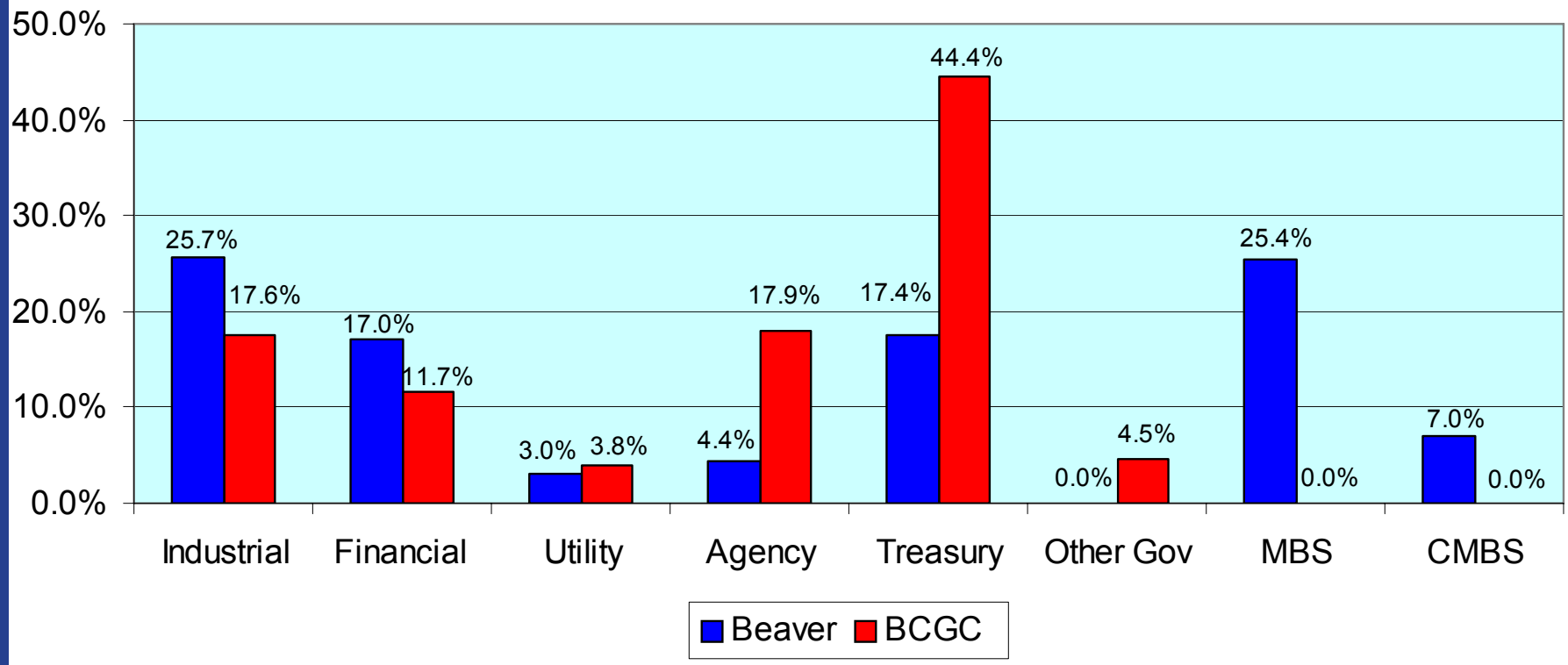



| Top Ten Large Cap Equity Holdings - % of Balanced Portfolio | | | |
|---|---|---|---|
| | percentage | | percentage |
| 1. Exxon Mobil Corp | 2.03 | 6. Procter & Gamble | 1.25 |
| 2. Bank of America Corp | 1.39 | 7. Intel Corporation | 1.24 |
| 3. General Electric | 1.34 | 8. Microsoft Corp | 1.22 |
| 4. JP Morgan Chase | 1.32 | 9. Int'l Business Machines | 1.22 |
| 5. Apple Computer | 1.27 | 10. Johnson & Johnson | 1.21 |



Source: Standard & Poors and CIM

## Beaver County Retirement System
## Fixed Income Industry Sector Diversification
As of September 30, 2009

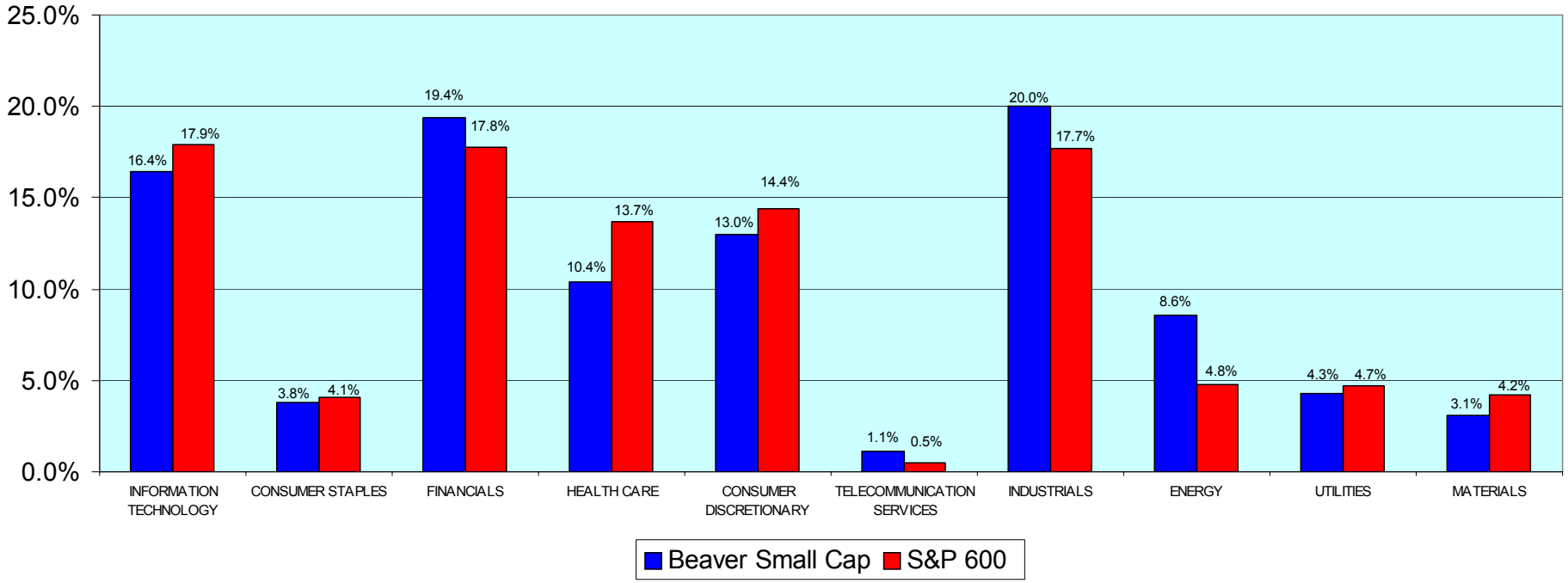



### Statistical Characteristics

| | Beaver | BCGC |
|---|---|---|
| Coupon | 4.96% | 4.63% |
| Yield to Maturity | 3.87% | 3.00% |
| Effective Duration | 4.39 years | 5.07 years |
| Average Credit Quality | Aa3 | Aa3 |

Source: Barclays Capital and CIM

# Beaver County Retirement System
## Small Cap Equity Industry Sector Diversification
As of September 30, 2009




| Top Ten Small Cap Equity Holdings | | | |
|---|---|---|---|
| | percentage | | percentage |
| 1. National Retail Prop | 1.76 | 6. Kirby Corp | 1.53 |
| 2. Polaris Industries | 1.75 | 7. Peidmont Nat. Gas | 1.51 |
| 3. PSS World Medical | 1.68 | 8. Valmont Industries | 1.49 |
| 4. Varian Semiconductor | 1.65 | 9. Atmos Energy Corp | 1.46 |
| 5. Integra Lifesciences | 1.65 | 10. Oil States Int'l | 1.41 |



Source: Standard & Poors and CIM

# BEAVER COUNTY BALANCED PORTFOLIO APPRAISAL

| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| **COMMON STOCK** | | | | | | | | |
| INFORMATION TECHNOLOGY | | | | | | | | |
| 5,260 | Apple Computer | 103.75 | 545,751.10 | 185.35 | 974,941.00 | 1.3 | 0.00 | 0.0 |
| 4,710 | Auto Data Process | 35.99 | 169,500.22 | 39.30 | 185,103.00 | 0.2 | 1,365.90 | 0.7 |
| 32,955 | Cisco Systems, Inc. | 16.97 | 559,326.17 | 23.54 | 775,760.70 | 1.0 | 0.00 | 0.0 |
| 17,105 | EMC Corp. | 11.07 | 189,409.96 | 17.04 | 291,469.20 | 0.4 | 0.00 | 0.0 |
| 1,355 | Google Inc Cl-B | 407.50 | 552,168.09 | 495.85 | 671,876.75 | 0.9 | 0.00 | 0.0 |
| 14,360 | Hewlett Packard Co. | 23.65 | 339,663.97 | 47.21 | 677,935.60 | 0.9 | 1,148.80 | 0.2 |
| 7,820 | Int'l Bus Machines | 75.61 | 591,253.90 | 119.61 | 935,350.20 | 1.2 | 3,910.00 | 0.4 |
| 48,580 | Intel Corporation | 16.57 | 804,903.10 | 19.57 | 950,710.60 | 1.2 | 6,801.20 | 0.7 |
| 13,175 | Intuit Inc. | 23.07 | 303,944.54 | 28.50 | 375,487.50 | 0.5 | 0.00 | 0.0 |
| 36,445 | Microsoft Corporation | 26.24 | 956,252.61 | 25.72 | 937,365.40 | 1.2 | 4,008.95 | 0.4 |
| 20,460 | Oracle Systems Corp. | 17.26 | 353,093.71 | 20.84 | 426,386.40 | 0.6 | 0.00 | 0.0 |
| 9,345 | Qualcomm Inc. | 36.48 | 340,893.66 | 44.98 | 420,338.10 | 0.5 | 1,495.20 | 0.4 |
| 15,715 | Texas Instruments | 23.02 | 361,754.21 | 23.69 | 372,288.35 | 0.5 | 1,571.50 | 0.4 |
| | | | 6,067,915.24 | | 7,995,012.80 | 10.4 | 20,301.55 | 0.3 |
| CONSUMER STAPLES | | | | | | | | |
| 13,360 | Altria Group Inc. | 14.77 | 197,285.70 | 17.81 | 237,941.60 | 0.3 | 3,874.40 | 1.6 |
| 12,255 | Coca Cola Co. | 51.96 | 636,825.24 | 53.70 | 658,093.50 | 0.9 | 4,656.90 | 0.7 |
| 3,190 | Colgate-Palmolive Co. | 64.59 | 206,040.52 | 76.28 | 243,333.20 | 0.3 | 2,009.70 | 0.8 |
| 6,225 | General Mills, Inc. | 63.91 | 397,859.13 | 64.38 | 400,765.50 | 0.5 | 8,715.00 | 2.2 |
| 7,895 | Heinz (H.J.) Co. | 36.39 | 287,265.55 | 39.75 | 313,826.25 | 0.4 | 11,053.00 | 3.5 |
| 12,351 | Kraft Foods Inc. | 25.04 | 309,289.34 | 26.27 | 324,460.77 | 0.4 | 3,334.77 | 1.0 |
| 10,200 | Pepsico Inc. | 49.69 | 506,876.54 | 58.66 | 598,332.00 | 0.8 | 4,335.00 | 0.7 |
| 11,655 | Philip Morris Intl. | 33.22 | 387,229.82 | 48.74 | 568,064.70 | 0.7 | 0.00 | 0.0 |
| 16,580 | Procter & Gamble | 58.23 | 965,411.15 | 57.92 | 960,313.60 | 1.2 | 6,632.00 | 0.7 |
| 11,940 | Sysco Corp. | 25.94 | 309,782.91 | 24.85 | 296,709.00 | 0.4 | 3,343.20 | 1.1 |
| | | | 4,203,865.90 | | 4,601,840.12 | 6.0 | 47,953.97 | 1.0 |
| FINANCIALS | | | | | | | | |
| 7,930 | AllState Corporation | 28.42 | 225,406.71 | 30.62 | 242,816.60 | 0.3 | 6,026.80 | 2.5 |
| 18,730 | American Express Co. | 24.68 | 462,285.71 | 33.90 | 634,947.00 | 0.8 | 3,371.40 | 0.5 |
| 63,143 | Bank of America Corp. | 18.48 | 1,167,100.24 | 16.92 | 1,068,379.56 | 1.4 | 40,411.52 | 3.8 |
| 65,245 | Citigroup - New | 11.86 | 773,926.45 | 4.84 | 315,785.80 | 0.4 | 20,878.40 | 6.6 |
| 4,530 | Franklin Resources | 54.30 | 245,996.72 | 100.60 | 455,718.00 | 0.6 | 317.10 | 0.1 |
| 4,725 | Goldman Sachs Grp. | 99.50 | 470,156.42 | 184.35 | 871,053.75 | 1.1 | 1,653.75 | 0.2 |
| 16,555 | Hudson City Bancorp | 12.29 | 203,438.72 | 13.15 | 217,698.25 | 0.3 | 2,483.25 | 1.1 |
| 23,105 | JP Morgan Chase | 33.43 | 772,303.40 | 43.82 | 1,012,461.10 | 1.3 | 8,779.90 | 0.9 |
| 14,975 | Metlife Inc. | 38.99 | 583,880.61 | 38.07 | 570,098.25 | 0.7 | 3,144.75 | 0.6 |
| 9,225 | Prudential Financial | 25.93 | 239,249.13 | 49.91 | 460,419.75 | 0.6 | 3,690.00 | 0.8 |
| 6,684 | Simon Property Grp. | 59.20 | 395,687.72 | 69.43 | 464,064.50 | 0.6 | 3,676.16 | 0.8 |
| 6,335 | T Rowe Price Gr | 28.87 | 182,869.62 | 45.70 | 289,509.50 | 0.4 | 1,520.40 | 0.5 |
| 13,205 | U.S. Bancorp | 22.91 | 302,501.90 | 21.86 | 288,661.30 | 0.4 | 9,903.75 | 3.4 |
| 30,550 | Wells Fargo & Co. | 31.31 | 956,367.82 | 28.18 | 860,899.00 | 1.1 | 34,216.00 | 4.0 |
| | | | 6,981,171.17 | | 7,752,512.36 | 10.1 | 140,073.18 | 1.8 |

| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| HEALTH CARE | | | | | | | | |
| 6,725 | Abbott Laboratories | 53.73 | 361,314.88 | 49.47 | 332,685.75 | 0.4 | 2,421.00 | 0.7 |
| 5,800 | Amgen Inc. | 50.44 | 292,527.30 | 60.23 | 349,334.00 | 0.5 | 0.00 | 0.0 |
| 4,040 | Baxter International Inc. | 59.75 | 241,371.16 | 57.01 | 230,320.40 | 0.3 | 2,351.28 | 1.0 |
| 11,955 | Bristol Myers Squibb | 22.13 | 264,572.77 | 22.52 | 269,226.60 | 0.4 | 3,706.05 | 1.4 |
| 5,950 | Cardinal Health | 29.25 | 174,043.39 | 26.80 | 159,460.00 | 0.2 | 2,142.00 | 1.3 |
| 2,975 | Carefusion Corp. | 22.97 | 68,341.68 | 21.80 | 64,855.00 | 0.1 | 0.00 | ? |
| 3,630 | Celgene Corp | 46.95 | 170,433.02 | 55.90 | 202,917.00 | 0.3 | 0.00 | 0.0 |
| 6,430 | Gilead Sciences Inc. | 44.41 | 285,544.62 | 46.50 | 298,995.00 | 0.4 | 0.00 | 0.0 |
| 15,310 | Johnson & Johnson | 58.35 | 893,267.77 | 60.89 | 932,225.90 | 1.2 | 7,042.60 | 0.8 |
| 7,220 | Lilly (ELI) Co. | 51.94 | 374,987.16 | 33.03 | 238,476.60 | 0.3 | 3,393.40 | 1.4 |
| 6,090 | Medtronic, Inc. | 48.16 | 293,308.03 | 36.80 | 224,112.00 | 0.3 | 2,679.60 | 1.2 |
| 11,275 | Merck & Co. Inc. | 44.98 | 507,158.58 | 31.63 | 356,628.25 | 0.5 | 4,284.50 | 1.2 |
| 37,350 | Pfizer Inc. | 17.62 | 658,046.78 | 16.55 | 618,142.50 | 0.8 | 11,952.00 | 1.9 |
| 10,120 | Schering-Plough | 18.83 | 190,521.04 | 28.25 | 285,890.00 | 0.4 | 657.80 | 0.2 |
| 9,595 | UnitedHealth Group | 25.31 | 242,866.56 | 25.04 | 240,258.80 | 0.3 | 287.85 | 0.1 |
| 7,310 | Wyeth | 36.37 | 265,869.20 | 48.58 | 355,119.80 | 0.5 | 2,046.80 | 0.6 |
| | | | 5,284,173.96 | | 5,158,647.60 | 6.7 | 42,964.88 | 0.8 |
| CONSUMER DISCRETIONARY | | | | | | | | |
| 13,375 | CVS Corp. | 32.34 | 432,574.98 | 35.74 | 478,022.50 | 0.6 | 802.50 | 0.2 |
| 8,235 | Coach, Inc. | 23.12 | 190,413.99 | 32.92 | 271,096.20 | 0.4 | 0.00 | 0.0 |
| 19,042 | Comcast Corp.-Cl A | 17.01 | 323,874.22 | 16.88 | 321,428.96 | 0.4 | 1,190.12 | 0.4 |
| 15,800 | Home Depot Inc. | 25.58 | 404,159.23 | 26.64 | 420,912.00 | 0.5 | 3,555.00 | 0.8 |
| 13,590 | Lowe's Companies | 20.07 | 272,692.40 | 20.94 | 284,574.60 | 0.4 | 2,718.00 | 1.0 |
| 6,190 | McDonalds Corp. | 53.15 | 329,017.42 | 57.07 | 353,263.30 | 0.5 | 2,321.25 | 0.7 |
| 35,780 | News Corp-Cl A | 7.83 | 280,108.78 | 11.96 | 427,928.80 | 0.6 | 2,146.80 | 0.5 |
| 6,630 | Target Corp. | 47.63 | 315,802.50 | 46.68 | 309,488.40 | 0.4 | 1,060.80 | 0.3 |
| 1,667 | Time Warner Cable | 44.46 | 74,122.35 | 43.09 | 71,831.04 | 0.1 | 0.00 | 0.0 |
| 6,633 | Time Warner Inc. | 31.69 | 210,207.01 | 28.78 | 190,897.74 | 0.2 | 1,243.69 | 0.7 |
| 11,260 | Wal-Mart Stores | 50.20 | 565,256.36 | 49.09 | 552,753.40 | 0.7 | 2,674.25 | 0.5 |
| | | | 3,398,229.22 | | 3,682,196.94 | 4.8 | 17,712.41 | 0.5 |
| TELECOMMUNICATION SERVICES | | | | | | | | |
| 17,895 | AT&T | 33.19 | 593,975.21 | 27.01 | 483,343.95 | 0.6 | 7,158.00 | 1.5 |
| 7,710 | American Tower Cl-A | 33.91 | 261,483.80 | 36.40 | 280,644.00 | 0.4 | 0.00 | 0.0 |
| 1 | Citadel Broadcasting | 25.82 | 25.81 | 0.06 | 0.06 | 0.0 | 0.00 | 0.0 |
| 7,550 | Verizon Comm. | 29.83 | 225,253.81 | 30.27 | 228,538.50 | 0.3 | 3,246.50 | 1.4 |
| | | | 1,080,738.63 | | 992,526.51 | 1.3 | 10,404.50 | 1.0 |
| INDUSTRIALS | | | | | | | | |
| 6,335 | 3M Co. | 65.73 | 416,413.25 | 73.80 | 467,523.00 | 0.6 | 3,167.50 | 0.7 |
| 6,495 | Boeing Co. | 48.86 | 317,333.23 | 54.15 | 351,704.25 | 0.5 | 2,598.00 | 0.7 |
| 3,645 | Burlington Northern | 75.70 | 275,911.80 | 79.83 | 290,980.35 | 0.4 | 3,645.00 | 1.3 |
| 7,030 | CSX Corporation Com | 29.08 | 204,444.33 | 41.86 | 294,275.80 | 0.4 | 1,265.40 | 0.4 |
| 9,815 | Emerson Electric | 36.29 | 356,227.62 | 40.08 | 393,385.20 | 0.5 | 15,016.95 | 3.8 |
| 62,955 | General Electric Co. | 25.32 | 1,594,185.48 | 16.42 | 1,033,721.10 | 1.3 | 19,516.05 | 1.9 |
| 8,890 | Honeywell Intl., Inc. | 42.85 | 380,915.39 | 37.15 | 330,263.50 | 0.4 | 2,444.75 | 0.7 |
| 6,815 | Illinois Tool Works | 34.27 | 233,558.38 | 42.71 | 291,068.65 | 0.4 | 5,724.60 | 2.0 |

| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| 9,365 | Johnson Controls | 22.03 | 206,283.32 | 25.56 | 239,369.40 | 0.3 | 3,371.40 | 1.4 |
| 6,055 | Parker Hannifin | 44.09 | 266,969.55 | 51.84 | 313,891.20 | 0.4 | 1,271.55 | 0.4 |
| 6,235 | Union Pacific Corp. | 53.80 | 335,437.36 | 58.35 | 363,812.25 | 0.5 | 4,988.00 | 1.4 |
| 8,075 | United Tech Corp. | 48.51 | 391,735.48 | 60.93 | 492,009.75 | 0.6 | 2,584.00 | 0.5 |
| | | | 4,979,415.20 | | 4,862,004.45 | 6.3 | 65,593.20 | 1.3 |
| ENERGY | | | | | | | | |
| 5,210 | Anadarko Peteroleum | 37.31 | 194,389.88 | 62.73 | 326,823.30 | 0.4 | 1,875.60 | 0.6 |
| 10,045 | ChevronTexaco Corp. | 53.71 | 539,539.07 | 70.43 | 707,469.35 | 0.9 | 6,529.25 | 0.9 |
| 9,805 | ConocoPhillips | 43.80 | 429,469.47 | 45.16 | 442,793.80 | 0.6 | 4,608.35 | 1.0 |
| 4,435 | Devon Energy Corp. | 78.03 | 346,075.52 | 67.33 | 298,608.55 | 0.4 | 709.60 | 0.2 |
| 2,315 | EOG Resources | 51.71 | 119,705.14 | 83.51 | 193,325.65 | 0.3 | 138.90 | 0.1 |
| 22,715 | Exxon Mobil Corp. | 55.20 | 1,253,963.31 | 68.61 | 1,558,476.15 | 2.0 | 9,086.00 | 0.6 |
| 11,255 | Halliburton Company | 21.98 | 247,373.07 | 27.12 | 305,235.60 | 0.4 | 3,376.50 | 1.1 |
| 3,600 | Hess Corp. | 54.51 | 196,248.90 | 53.46 | 192,456.00 | 0.3 | 1,440.00 | 0.7 |
| 13,640 | Marathon Oil | 20.97 | 286,000.00 | 31.90 | 435,116.00 | 0.6 | 21,824.00 | 5.0 |
| 8,670 | National Oilwell Varco | 24.59 | 213,194.61 | 43.13 | 373,937.10 | 0.5 | 0.00 | 0.0 |
| 6,575 | Occidental Pete | 61.09 | 401,652.39 | 78.40 | 515,480.00 | 0.7 | 2,104.00 | 0.4 |
| 7,510 | Schlumberger LTD | 45.70 | 343,228.46 | 59.60 | 447,596.00 | 0.6 | 1,577.10 | 0.4 |
| | | | 4,570,839.82 | | 5,797,317.50 | 7.5 | 53,269.30 | 0.9 |
| UTILITIES | | | | | | | | |
| 5,415 | American Elect. Power | 32.48 | 175,890.32 | 30.99 | 167,810.85 | 0.2 | 12,996.00 | 7.7 |
| 13,975 | Duke Energy Corp. | 15.13 | 211,408.35 | 15.74 | 219,966.50 | 0.3 | 17,888.00 | 8.1 |
| 4,450 | Exelon Corp. | 56.80 | 252,776.37 | 49.62 | 220,809.00 | 0.3 | 2,047.00 | 0.9 |
| 4,600 | FPL Group, Inc. - Com | 50.37 | 231,700.09 | 55.23 | 254,058.00 | 0.3 | 10,304.00 | 4.1 |
| 7,000 | Sempra Energy | 44.00 | 307,999.58 | 49.81 | 348,670.00 | 0.5 | 7,000.00 | 2.0 |
| 15,685 | Xcel Enegery Inc. | 18.39 | 288,406.80 | 19.24 | 301,779.40 | 0.4 | 3,725.19 | 1.2 |
| | | | 1,468,181.51 | | 1,513,093.75 | 2.0 | 53,960.19 | 3.6 |
| MATERIALS | | | | | | | | |
| 13,410 | Du Pont (E.I.) | 32.16 | 431,247.58 | 32.14 | 430,997.40 | 0.6 | 5,498.10 | 1.3 |
| 3,630 | Monsanto Co. | 93.17 | 338,194.54 | 77.40 | 280,962.00 | 0.4 | 871.20 | 0.3 |
| 6,380 | Nucor Corporation | 41.50 | 264,793.01 | 47.01 | 299,923.80 | 0.4 | 2,552.00 | 0.9 |
| 3,260 | Praxair, Inc. | 62.55 | 203,900.83 | 81.69 | 266,309.40 | 0.3 | 2,216.80 | 0.8 |
| | | | 1,238,135.96 | | 1,278,192.60 | 1.7 | 11,138.10 | 0.9 |
| | COMMON STOCK | | 39,272,666.60 | | 43,633,344.63 | 56.8 | 463,371.28 | 1.1 |
| **EXCHANGE TRADED FUNDS** | | | | | | | | |
| 36,100 | IShares S&P 500 Index | 92.66 | 3,344,855.59 | 106.01 | 3,826,961.00 | 5.0 | 89,356.16 | 2.3 |
| | EXCHANGE TRADED FUNDS | | 3,344,855.59 | | 3,826,961.00 | 5.0 | 89,356.16 | 2.3 |
| **U.S. TREASURY NOTES/BONDS** | | | | | | | | |
| 750,000 | U.S. Treasury Note 1.125% Due 06-30-11 | 100.48 | 753,574.22 | 100.56 | 754,218.75 | 1.0 | 8,437.50 | 1.1 |
| 3,172,000 | U.S. Treasury Note 1.000% Due 08-31-11 | 100.22 | 3,178,901.92 | 100.19 | 3,177,947.50 | 4.1 | 31,720.00 | 1.0 |

| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| 900,000 | U.S. Treasury Note 2.625% Due 06-30-14 | 101.95 | 917,507.81 | 101.78 | 916,031.25 | 1.2 | 23,625.00 | 2.6 |
| | Accrued Interest | | | | 10,644.35 | 0.0 | | |
| | U.S. TREASURY NOTES/BONDS | | 4,849,983.95 | | 4,858,841.85 | 6.3 | 63,782.50 | 1.3 |
| **GOVERNMENT AGENCIES** | | | | | | | | |
| 150,000 | Fed Home Loan Mtg 4.500% Due 07-15-13 | 101.22 | 151,828.50 | 108.62 | 162,937.50 | 0.2 | 6,750.00 | 4.1 |
| 270,000 | Fed Natl Mtg Assoc 4.625% Due 10-15-13 | 101.25 | 273,375.00 | 109.22 | 294,890.62 | 0.4 | 12,487.50 | 4.2 |
| 360,000 | Fed Natl Mtg Assoc 5.000% Due 03-15-16 | 101.97 | 367,088.40 | 110.44 | 397,575.00 | 0.5 | 18,000.00 | 4.5 |
| 300,000 | Fed Natl Mtg Assoc 6.250% Due 05-15-29 | 115.35 | 346,045.50 | 122.69 | 368,062.50 | 0.5 | 18,750.00 | 5.1 |
| | Accrued Interest | | | | 14,910.94 | 0.0 | | |
| | GOVERNMENT AGENCIES | | 1,138,337.40 | | 1,238,376.56 | 1.6 | 55,987.50 | 4.6 |
| **MORTGAGE BACKED SECURITIES** | | | | | | | | |
| FNMA/FHLMC | | | | | | | | |
| 126,144 | FGCI #E97963 5.000% Due 07-01-18 | 101.78 | 128,391.00 | 106.46 | 134,294.23 | 0.2 | 6,307.20 | 4.7 |
| 228,385 | FGCI #G18008 4.500% Due 09-01-19 | 100.31 | 229,098.55 | 105.26 | 240,400.18 | 0.3 | 10,277.32 | 4.3 |
| 178,114 | FNCI #831192 5.000% Due 11-01-20 | 98.79 | 175,951.32 | 105.74 | 188,340.87 | 0.2 | 8,905.68 | 4.7 |
| 312,534 | FGCI #G11900 5.500% Due 02-01-21 | 98.91 | 309,115.62 | 106.21 | 331,945.44 | 0.4 | 17,189.37 | 5.2 |
| 568,887 | FGCI #G12335 5.000% Due 05-01-21 | 98.59 | 560,886.60 | 105.84 | 602,086.79 | 0.8 | 28,444.33 | 4.7 |
| 342,496 | FNCL #886599 5.500% Due 08-01-21 | 99.52 | 340,837.13 | 106.09 | 363,340.41 | 0.5 | 18,837.29 | 5.2 |
| 148,962 | FGCI #G18175 5.500% Due 04-01-22 | 100.37 | 149,518.68 | 105.98 | 157,865.00 | 0.2 | 8,192.89 | 5.2 |
| 115,671 | FGCI #G12777 5.000% Due 08-01-22 | 98.83 | 114,312.57 | 105.18 | 121,662.99 | 0.2 | 5,783.56 | 4.8 |
| 170,583 | FNCI #949663 5.500% Due 08-01-22 | 100.41 | 171,274.15 | 105.91 | 180,671.55 | 0.2 | 9,382.08 | 5.2 |
| 295,046 | FNCL #799556 5.000% Due 11-01-34 | 99.64 | 293,985.83 | 103.72 | 306,030.72 | 0.4 | 14,752.31 | 4.8 |
| 681,829 | FNCL# 832869 5.000% Due 09-01-35 | 96.80 | 659,989.59 | 103.66 | 706,784.40 | 0.9 | 34,091.47 | 4.8 |
| 147,633 | FNCL #805625 5.500% Due 12-01-35 | 98.47 | 145,371.94 | 105.02 | 155,045.19 | 0.2 | 8,119.79 | 5.2 |
| 314,851 | FNCL #852028 6.000% Due 01-01-36 | 99.16 | 312,194.25 | 106.01 | 333,760.74 | 0.4 | 18,891.05 | 5.7 |
| 601,115 | FNCL #868450 5.500% Due 04-01-36 | 99.22 | 596,419.05 | 104.88 | 630,449.68 | 0.8 | 33,061.34 | 5.2 |
| 775,723 | FNCL #938289 5.500% Due 07-01-37 | 98.68 | 765,483.78 | 104.80 | 812,973.52 | 1.1 | 42,664.78 | 5.2 |

| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| 200,935 | FGLMC #G03216<br>5.000% Due 09-01-37 | 96.12 | 193,134.58 | 103.49 | 207,945.45 | 0.3 | 10,046.74 | 4.8 |
| 266,600 | FNCL #899719<br>5.000% Due 09-01-37 | 96.12 | 256,250.15 | 103.46 | 275,815.90 | 0.4 | 13,329.98 | 4.8 |
| 1,022,255 | FNCL #256925<br>6.000% Due 10-01-37 | 100.77 | 1,030,085.31 | 105.72 | 1,080,778.81 | 1.4 | 61,335.28 | 5.7 |
| | Accrued Interest | | | | 28,163.23 | 0.0 | | |
| | | | 6,432,300.09 | | 6,858,355.10 | 8.9 | 349,612.45 | 5.1 |
| GNMA | | | | | | | | |
| 155,936 | GNJO #605142<br>4.500% Due 03-15-19 | 100.75 | 157,105.28 | 105.57 | 164,626.06 | 0.2 | 7,017.11 | 4.3 |
| 162,970 | GNSF #594139<br>5.000% Due 10-15-33 | 100.09 | 163,122.54 | 104.24 | 169,881.30 | 0.2 | 8,148.49 | 4.8 |
| 212,874 | GNSF #671531<br>5.500% Due 09-15-37 | 100.25 | 213,406.32 | 105.17 | 223,883.97 | 0.3 | 11,708.08 | 5.2 |
| | Accrued Interest | | | | 2,164.82 | 0.0 | | |
| | | | 533,634.13 | | 560,556.15 | 0.7 | 26,873.67 | 4.8 |
| | MORTGAGE BACKED SECURITIES | | 6,965,934.22 | | 7,418,911.25 | 9.6 | 376,486.12 | 5.1 |
| **COMMERCIAL MORTGAGE BACKED SECURITIES** | | | | | | | | |
| 750,000 | GS Mortgage Sec<br>5.396% Due 08-10-38 | 101.28 | 759,609.38 | 96.93 | 726,960.00 | 0.9 | 40,470.00 | 5.6 |
| 500,000 | Merrill Lynch Mtg Tr<br>5.499% Due 01-12-44 | 96.99 | 484,941.41 | 71.52 | 357,610.00 | 0.5 | 27,497.19 | 7.7 |
| 1,000,000 | JPMCC 2006-LDP9 A3<br>5.336% Due 05-15-47 | 99.09 | 990,937.50 | 85.69 | 856,870.00 | 1.1 | 53,360.00 | 6.2 |
| | Accrued Interest | | | | 5,846.53 | 0.0 | | |
| | COMMERCIAL MORTGAGE BACKED SECURITIES | | 2,235,488.29 | | 1,947,286.53 | 2.5 | 121,327.19 | 6.2 |
| **CORPORATE BONDS** | | | | | | | | |
| UTILITY BONDS | | | | | | | | |
| 142,000 | Duke Energy Corp.<br>5.300% Due 10-01-15 | 101.07 | 143,515.10 | 108.97 | 154,740.81 | 0.2 | 7,526.00 | 4.9 |
| 300,000 | Natl Rural Utilities<br>7.200% Due 10-01-15 | 119.23 | 357,705.00 | 113.64 | 340,929.90 | 0.4 | 21,600.00 | 6.3 |
| 140,000 | Carolina Power & Light<br>5.250% Due 12-15-15 | 100.44 | 140,616.00 | 108.97 | 152,553.94 | 0.2 | 7,350.00 | 4.8 |
| 110,000 | SBC Comm Inc.<br>5.625% Due 06-15-16 | 101.37 | 111,508.10 | 107.58 | 118,333.27 | 0.2 | 6,187.50 | 5.2 |
| 500,000 | South Carolina E&G<br>5.300% Due 05-15-33 | 105.04 | 525,222.50 | 102.04 | 510,219.00 | 0.7 | 26,500.00 | 5.2 |
| 500,000 | Comcast Corp.<br>6.450% Due 03-15-37 | 101.42 | 507,095.00 | 105.89 | 529,444.50 | 0.7 | 32,250.00 | 6.1 |
| | Accrued Interest | | | | 29,711.78 | 0.0 | | |
| | | | 1,785,661.70 | | 1,835,933.20 | 2.4 | 101,413.50 | 5.6 |

| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| FINANCIAL BONDS | | | | | | | | |
| 140,000 | Gen. Elec. Cap. Corp. 4.875% Due 10-21-10 | 102.21 | 143,089.80 | 103.12 | 144,365.90 | 0.2 | 6,825.00 | 4.7 |
| 500,000 | National City Bank 6.250% Due 03-15-11 | 100.00 | 500,000.00 | 102.08 | 510,424.00 | 0.7 | 31,250.00 | 6.1 |
| 500,000 | HSBC Finance 6.375% Due 11-15-12 | 115.58 | 577,912.50 | 107.54 | 537,693.50 | 0.7 | 31,875.00 | 5.9 |
| 500,000 | Progressive Corp. 7.000% Due 10-01-13 | 94.84 | 474,220.00 | 108.81 | 544,032.50 | 0.7 | 35,000.00 | 6.4 |
| 1,000,000 | Principal Life Inc. FDG 5.100% Due 04-15-14 | 96.71 | 967,130.00 | 103.03 | 1,030,314.00 | 1.3 | 51,000.00 | 4.9 |
| 700,000 | JP Morgan 5.700% Due 11-15-14 | 98.58 | 690,032.00 | 107.11 | 749,763.00 | 1.0 | 39,900.00 | 5.3 |
| 110,000 | Gen. Elec. Cap. Corp. 5.400% Due 02-15-17 | 101.59 | 111,750.10 | 99.69 | 109,663.62 | 0.1 | 5,940.00 | 5.4 |
| 500,000 | Hartford Financial 5.375% Due 03-15-17 | 97.04 | 485,225.00 | 91.55 | 457,772.00 | 0.6 | 26,875.00 | 5.9 |
| 500,000 | Bank of America Corp. 7.625% Due 06-01-19 | 108.60 | 543,025.00 | 112.68 | 563,395.50 | 0.7 | 38,125.00 | 6.8 |
| | Accrued Interest | | | | 91,715.90 | 0.1 | | |
| | | | 4,985,864.40 | | 4,739,189.92 | 6.2 | 299,290.00 | 6.4 |
| INDUSTRIAL BONDS | | | | | | | | |
| 142,000 | United Technologies 4.375% Due 05-01-10 | 100.76 | 143,076.40 | 102.40 | 145,413.68 | 0.2 | 6,212.50 | 4.3 |
| 500,000 | Avon Products 5.125% Due 01-15-11 | 97.96 | 489,820.00 | 103.71 | 518,541.00 | 0.7 | 25,625.00 | 4.9 |
| 375,000 | Estee Lauder Cos Inc. 6.000% Due 01-15-12 | 110.31 | 413,658.75 | 106.87 | 400,775.62 | 0.5 | 22,500.00 | 5.6 |
| 140,000 | Pepsico Inc. 5.150% Due 05-15-12 | 103.96 | 145,539.80 | 108.51 | 151,908.96 | 0.2 | 7,210.00 | 4.7 |
| 142,000 | GE Company 5.000% Due 02-01-13 | 101.48 | 144,108.70 | 105.49 | 149,795.94 | 0.2 | 7,100.00 | 4.7 |
| 500,000 | Wal-Mart Stores 7.250% Due 06-01-13 | 105.58 | 527,925.00 | 116.70 | 583,476.00 | 0.8 | 36,250.00 | 6.2 |
| 100,000 | Schering-Plough 5.300% Due 12-01-13 | 101.31 | 101,313.00 | 109.48 | 109,479.30 | 0.1 | 5,300.00 | 4.8 |
| 500,000 | Deere & Company 6.950% Due 04-25-14 | 107.33 | 536,670.00 | 115.73 | 578,654.50 | 0.8 | 34,750.00 | 6.0 |
| 645,000 | Cisco Systems 5.500% Due 02-22-16 | 98.29 | 633,966.00 | 110.12 | 710,244.97 | 0.9 | 35,475.00 | 5.0 |
| 134,000 | Abbott Labs 5.875% Due 05-15-16 | 104.44 | 139,944.20 | 111.46 | 149,353.85 | 0.2 | 7,872.50 | 5.3 |
| 500,000 | Anheuser Busch 5.050% Due 10-15-16 | 100.18 | 500,918.63 | 103.14 | 515,695.00 | 0.7 | 25,250.00 | 4.9 |
| 300,000 | Costco Companies 5.500% Due 03-15-17 | 101.60 | 304,794.00 | 109.33 | 327,998.70 | 0.4 | 16,500.00 | 5.0 |
| 450,000 | Coca-Cola Enterprises 7.125% Due 08-01-17 | 118.68 | 534,051.00 | 118.97 | 535,381.65 | 0.7 | 32,062.50 | 6.0 |

| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| 550,000 | Kerr-McGee Corp<br>6.950% Due 07-01-24 | 104.28 | 573,556.50 | 107.06 | 588,856.40 | 0.8 | 38,225.00 | 6.5 |
| 500,000 | IBM Corp.<br>7.000% Due 10-30-25 | 112.65 | 563,240.00 | 120.17 | 600,861.50 | 0.8 | 35,000.00 | 5.8 |
| 323,000 | Procter & Gamble<br>5.550% Due 03-05-37 | 100.28 | 323,901.20 | 107.69 | 347,823.20 | 0.5 | 17,926.50 | 5.2 |
| | Accrued Interest | | | | 94,651.25 | 0.1 | | |
| | | | 6,076,483.18 | | 6,508,911.53 | 8.5 | 353,259.00 | 5.5 |
| | CORPORATE BONDS | | 12,848,009.28 | | 13,084,034.65 | 17.0 | 753,962.50 | 5.9 |
| **CASH & EQUIVALENTS** | | | | | | | | |
| | Dividend Accrual | | 69,122.00 | | 69,122.00 | 0.1 | 0.00 | 0.0 |
| | Inventor MMF | | 803,491.49 | | 803,491.49 | 1.0 | 24,908.24 | 3.1 |
| | MMF Interest Accrual | | 131.00 | | 131.00 | 0.0 | 4.58 | 3.5 |
| | CASH & EQUIVALENTS | | 872,744.49 | | 872,744.49 | 1.1 | 24,912.82 | 2.9 |
| **TOTAL PORTFOLIO** | | | **71,528,019.82** | | **76,880,500.98** | **100.0** | **1,949,186.08** | **2.5** |

# BEAVER COUNTY SMALL CAP PORTFOLIO APPRAISAL

| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| **COMMON STOCK** | | | | | | | | |
| INFORMATION TECHNOLOGY | | | | | | | | |
| 5,380 | Arris Group Inc | 7.49 | 40,316.25 | 13.01 | 69,993.80 | 0.7 | 0.00 | ? |
| 3,035 | Black Box Corporation | 21.60 | 65,567.35 | 25.09 | 76,148.15 | 0.7 | 182.10 | 0.2 |
| 1,625 | Brady Corp-A | 20.20 | 32,818.28 | 28.72 | 46,670.00 | 0.4 | 910.00 | 1.9 |
| 10,000 | CTS Corp. | 9.14 | 91,386.00 | 9.30 | 93,000.00 | 0.9 | 300.00 | 0.3 |
| 2,485 | Comtech Telecommunications | 33.34 | 82,841.63 | 33.22 | 82,551.70 | 0.8 | 0.00 | ? |
| 3,445 | Concur Technologies Inc | 22.05 | 75,969.93 | 39.76 | 136,973.20 | 1.3 | 0.00 | ? |
| 4,500 | Cypress Semiconductor Corp | 10.72 | 48,240.00 | 10.33 | 46,485.00 | 0.4 | 0.00 | ? |
| 5,910 | J2 Global Communications | 19.41 | 114,722.28 | 23.01 | 135,989.10 | 1.3 | 0.00 | ? |
| 3,250 | Microsemi Corp. | 13.83 | 44,948.48 | 15.79 | 51,317.50 | 0.5 | 0.00 | 0.0 |
| 1,900 | Plexus Corp | 26.77 | 50,861.32 | 26.34 | 50,046.00 | 0.5 | 0.00 | ? |
| 5,315 | Progress Software | 17.34 | 92,156.93 | 22.65 | 120,384.75 | 1.2 | 0.00 | ? |
| 8,270 | Radisys Corp | 7.08 | 58,571.72 | 8.69 | 71,866.30 | 0.7 | 0.00 | ? |
| 9,050 | Skyworks Solutions Inc. | 7.70 | 69,703.50 | 13.24 | 119,822.00 | 1.2 | 2,805.50 | 2.3 |
| 1,300 | Synaptics Inc | 36.42 | 47,350.94 | 25.20 | 32,760.00 | 0.3 | 0.00 | ? |
| 5,405 | Tetra Tech Inc | 21.74 | 117,511.26 | 26.53 | 143,394.65 | 1.4 | 0.00 | ? |
| 6,700 | Triquint Semiconductor Corp | 7.44 | 49,843.00 | 7.72 | 51,724.00 | 0.5 | 0.00 | ? |
| 5,025 | Tyler Technologies Inc | 12.98 | 65,206.28 | 17.09 | 85,877.25 | 0.8 | 0.00 | ? |
| 5,230 | Varian Semiconductor | 20.41 | 106,743.76 | 32.84 | 171,753.20 | 1.7 | 0.00 | 0.0 |
| 6,445 | Websense Inc | 11.85 | 76,396.51 | 16.80 | 108,276.00 | 1.0 | 0.00 | ? |
| | | | 1,331,155.42 | | 1,695,032.60 | 16.3 | 4,197.60 | 0.2 |
| CONSUMER STAPLES | | | | | | | | |
| 2,000 | Casey's Gen. Stores | 24.65 | 49,294.82 | 31.38 | 62,760.00 | 0.6 | 400.00 | 0.6 |
| 2,110 | Diamond Foods Inc | 22.06 | 46,554.20 | 31.72 | 66,929.20 | 0.6 | 94.95 | 0.1 |
| 5,675 | Hain Celestial Group Inc. | 21.08 | 119,623.98 | 19.17 | 108,789.75 | 1.0 | 0.00 | 0.0 |
| 1,360 | J&J Snack Foods | 33.21 | 45,159.60 | 43.19 | 58,738.40 | 0.6 | 125.80 | 0.2 |
| 2,500 | Sanderson Farms Inc | 40.27 | 100,676.00 | 37.64 | 94,100.00 | 0.9 | 350.00 | 0.4 |
| | | | 361,308.60 | | 391,317.35 | 3.8 | 970.75 | 0.2 |
| FINANCIALS | | | | | | | | |
| 153 | Acadia Realty Trust | 12.58 | 1,925.00 | 15.07 | 2,306.30 | 0.0 | 32.14 | 1.4 |
| 9,035 | Biomed Realty Trust Inc. | 15.29 | 138,176.63 | 13.80 | 124,683.00 | 1.2 | 3,026.72 | 2.4 |
| 4,000 | Delphi Fin Gp-A | 23.58 | 94,311.20 | 22.63 | 90,520.00 | 0.9 | 400.00 | 0.4 |
| 2,675 | Eastgroup Properties | 28.43 | 76,054.95 | 38.22 | 102,238.50 | 1.0 | 0.00 | 0.0 |
| 7,240 | First Commonwealth | 9.70 | 70,264.17 | 5.68 | 41,123.20 | 0.4 | 1,230.80 | 3.0 |
| 1,000 | Greenhill & Co Inc | 70.83 | 70,831.00 | 89.58 | 89,580.00 | 0.9 | 450.00 | 0.5 |
| 2,480 | Home Properties Inc. | 30.92 | 76,689.94 | 43.09 | 106,863.20 | 1.0 | 1,661.60 | 1.6 |
| 1,770 | Investment Tech Grp. | 22.16 | 39,226.21 | 27.92 | 49,418.40 | 0.5 | 0.00 | 0.0 |
| 4,855 | Kilroy Realty | 34.27 | 166,380.48 | 27.74 | 134,677.70 | 1.3 | 2,815.90 | 2.1 |
| 18,579 | Lexington Realty Trust | 3.80 | 70,626.35 | 5.10 | 94,752.90 | 0.9 | 6,131.07 | 6.5 |
| 3,000 | N B T Bancorp Inc. | 23.07 | 69,218.40 | 22.54 | 67,620.00 | 0.7 | 60.00 | 0.1 |
| 8,545 | National Retail Properties | 18.39 | 157,131.61 | 21.47 | 183,461.15 | 1.8 | 3,204.37 | 1.7 |
| 8,765 | Old National Bancorp | 12.74 | 111,671.93 | 11.20 | 98,168.00 | 0.9 | 0.00 | ? |
| 2,350 | Proassurance Corp | 44.48 | 104,537.00 | 52.19 | 122,646.50 | 1.2 | 0.00 | 0.0 |

| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| 7,325 | Senior Housing Prop Tr. | 17.18 | 125,822.46 | 19.11 | 139,980.75 | 1.3 | 2,563.75 | 1.8 |
| 8,245 | Susquehanna Bancsh | 10.36 | 85,452.84 | 5.89 | 48,563.05 | 0.5 | 2,143.70 | 4.4 |
| 3,370 | Tanger Factory Outlet Center | 30.06 | 101,315.30 | 37.34 | 125,835.80 | 1.2 | 1,280.60 | 1.0 |
| 14,355 | Trustco Bank Corp. NY | 6.75 | 96,832.59 | 6.25 | 89,718.75 | 0.9 | 2,153.25 | 2.4 |
| 2,970 | UMB Financial Corp. | 43.31 | 128,634.36 | 40.44 | 120,106.80 | 1.2 | 490.05 | 0.4 |
| 5,400 | United Bankshares Inc. | 20.27 | 109,469.27 | 19.59 | 105,786.00 | 1.0 | 1,566.00 | 1.5 |
| 6,695 | Whitney Hldg Corp. | 13.02 | 87,168.50 | 9.54 | 63,870.30 | 0.6 | 1,807.65 | 2.8 |
| | | | 1,981,740.19 | | 2,001,920.30 | 19.3 | 31,017.61 | 1.5 |
| HEALTH CARE | | | | | | | | |
| 5,320 | American Medical Sys | 10.42 | 55,445.58 | 16.92 | 90,014.40 | 0.9 | 0.00 | ? |
| 3,000 | Catalyst Health Solutions | 26.71 | 80,134.80 | 29.15 | 87,450.00 | 0.8 | 0.00 | ? |
| 6,710 | Conmed Corp. | 20.70 | 138,890.91 | 19.17 | 128,630.70 | 1.2 | 0.00 | 0.0 |
| 3,125 | Cooper Cos Inc. | 22.55 | 70,456.25 | 29.73 | 92,906.25 | 0.9 | 156.25 | 0.2 |
| 1,775 | Haemonetics Corp/Mass | 54.25 | 96,299.50 | 56.12 | 99,613.00 | 1.0 | 0.00 | ? |
| 5,015 | Integra Lifesciences | 26.70 | 133,906.92 | 34.15 | 171,262.25 | 1.6 | 0.00 | 0.0 |
| 2,990 | Magellan Health Services Inc. | 36.56 | 109,324.41 | 31.06 | 92,869.40 | 0.9 | 0.00 | ? |
| 2,500 | Mednax Inc | 46.44 | 116,097.00 | 54.92 | 137,300.00 | 1.3 | 0.00 | 0.0 |
| 8,020 | PSS World Medical | 15.33 | 122,974.44 | 21.83 | 175,076.60 | 1.7 | 0.00 | ? |
| | | | 923,529.81 | | 1,075,122.60 | 10.3 | 156.25 | 0.0 |
| CONSUMER DISCRETIONARY | | | | | | | | |
| 1,400 | Buffalo Wild Wings | 40.79 | 57,112.98 | 41.61 | 58,254.00 | 0.6 | 0.00 | ? |
| 2,180 | Carter's Inc | 26.09 | 56,866.17 | 26.70 | 58,206.00 | 0.6 | 0.00 | ? |
| 1,000 | Green Mountain Coffee | 59.65 | 59,652.90 | 73.84 | 73,840.00 | 0.7 | 0.00 | ? |
| 5,305 | Helen of Troy LTD | 19.05 | 101,048.30 | 19.43 | 103,076.15 | 1.0 | 0.00 | ? |
| 5,000 | Hot Topic Inc | 9.68 | 48,417.50 | 7.49 | 37,450.00 | 0.4 | 0.00 | ? |
| 4,300 | Jack in the Box Inc. | 22.42 | 96,404.25 | 20.49 | 88,107.00 | 0.8 | 0.00 | ? |
| 7,400 | Maidenform Brands Inc | 12.65 | 93,581.00 | 16.06 | 118,844.00 | 1.1 | 0.00 | ? |
| 3,485 | Papa John's Intl Inc | 21.60 | 75,275.45 | 24.57 | 85,626.45 | 0.8 | 0.00 | 0.0 |
| 4,450 | Polaris Industries Inc. | 29.94 | 133,250.27 | 40.78 | 181,471.00 | 1.7 | 1,691.00 | 0.9 |
| 4,300 | Pool Corp. | 15.55 | 66,869.62 | 22.22 | 95,546.00 | 0.9 | 559.00 | 0.6 |
| 3,955 | SkyWest Inc | 15.35 | 60,692.45 | 16.58 | 65,573.90 | 0.6 | 158.20 | 0.2 |
| 3,305 | Sovran Self Storage | 24.04 | 79,448.80 | 30.43 | 100,571.15 | 1.0 | 2,082.15 | 2.1 |
| 3,515 | Toro Co. | 35.26 | 123,932.62 | 39.77 | 139,791.55 | 1.3 | 527.25 | 0.4 |
| 4,140 | Viad Corp. | 20.02 | 82,879.70 | 19.91 | 82,427.40 | 0.8 | 165.60 | 0.2 |
| 2,200 | Wolverine W.W. | 25.99 | 57,175.14 | 24.84 | 54,648.00 | 0.5 | 99.00 | 0.2 |
| | | | 1,192,607.15 | | 1,343,432.60 | 12.9 | 5,282.20 | 0.4 |
| TELECOMMUNICATION SERVICES | | | | | | | | |
| 5,360 | Arbitron Inc. | 13.84 | 74,204.28 | 20.76 | 111,273.60 | 1.1 | 0.00 | 0.0 |
| INDUSTRIALS | | | | | | | | |
| 2,590 | ABM Industries Inc. | 15.76 | 40,823.68 | 21.04 | 54,493.60 | 0.5 | 233.10 | 0.4 |
| 2,245 | Acuity Brands Inc. | 35.07 | 78,728.00 | 32.21 | 72,311.45 | 0.7 | 291.85 | 0.4 |
| 5,135 | Albany Intl Corp. | 23.55 | 120,944.30 | 19.40 | 99,619.00 | 1.0 | 616.20 | 0.6 |
| 2,915 | Anixter Intl Inc. | 45.89 | 133,774.69 | 40.11 | 116,920.65 | 1.1 | 0.00 | 0.0 |
| 4,705 | Baldor Electric Co. | 27.82 | 130,909.21 | 27.34 | 128,634.70 | 1.2 | 799.85 | 0.6 |
| 4,050 | Belden CDT | 26.66 | 107,980.05 | 23.10 | 93,555.00 | 0.9 | 202.50 | 0.2 |
| 1,365 | CACI Intl Inc-A | 46.48 | 63,441.45 | 47.27 | 64,523.55 | 0.6 | 0.00 | 0.0 |

| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| 1,995 | Clarcor Inc. | 32.84 | 65,521.79 | 31.36 | 62,563.20 | 0.6 | 159.60 | 0.3 |
| 1,175 | Coinstar, Inc. | 29.59 | 34,766.25 | 32.98 | 38,751.50 | 0.4 | 0.00 | ? |
| 3,840 | Curtiss-Wright Corp. | 36.89 | 141,648.22 | 34.13 | 131,059.20 | 1.3 | 307.20 | 0.2 |
| 5,000 | Cybersource Corp | 14.53 | 72,673.50 | 16.67 | 83,350.00 | 0.8 | 0.00 | 0.0 |
| 2,515 | Eagle Materials Inc. | 21.81 | 54,864.35 | 28.58 | 71,878.70 | 0.7 | 25.15 | 0.0 |
| 2,670 | Emcor Group Inc. | 19.53 | 52,155.22 | 25.32 | 67,604.40 | 0.7 | 0.00 | 0.0 |
| 2,610 | Esterline Tech Corp. | 32.13 | 83,849.29 | 39.21 | 102,338.10 | 1.0 | 0.00 | ? |
| 1,770 | Forward Air Corp | 22.64 | 40,068.20 | 23.15 | 40,975.50 | 0.4 | 0.00 | ? |
| 3,915 | Gardner Denver Inc. | 21.44 | 83,951.33 | 34.88 | 136,555.20 | 1.3 | 0.00 | 0.0 |
| 13,300 | GenCorp Inc. | 3.28 | 43,621.34 | 5.36 | 71,288.00 | 0.7 | 0.00 | 0.0 |
| 3,135 | Heartland Express Inc. | 14.23 | 44,602.90 | 14.40 | 45,144.00 | 0.4 | 250.80 | 0.6 |
| 1,755 | Hub Group | 24.59 | 43,155.45 | 22.85 | 40,101.75 | 0.4 | 0.00 | ? |
| 2,675 | Kaydon Corp. | 40.32 | 107,866.96 | 32.42 | 86,723.50 | 0.8 | 401.25 | 0.5 |
| 2,555 | Mueller Ind Inc. | 23.35 | 59,655.42 | 23.87 | 60,987.85 | 0.6 | 1,022.00 | 1.7 |
| 2,225 | Orbital Sciences Corp | 17.53 | 39,008.92 | 14.97 | 33,308.25 | 0.3 | 0.00 | ? |
| 2,260 | Regal Beloit | 31.83 | 71,929.47 | 45.71 | 103,304.60 | 1.0 | 361.60 | 0.4 |
| 1,000 | Rock-Tenn Company CL A | 50.06 | 50,060.00 | 47.11 | 47,110.00 | 0.5 | 100.00 | 0.2 |
| 1,775 | Teledyne Inc. | 39.64 | 70,361.21 | 35.99 | 63,882.25 | 0.6 | 0.00 | 0.0 |
| 1,825 | United Stationers Inc. | 32.66 | 59,598.52 | 47.61 | 86,888.25 | 0.8 | 0.00 | 0.0 |
| 2,650 | Veeco Inst. Inc. | 19.65 | 52,061.90 | 23.32 | 61,798.00 | 0.6 | 0.00 | 0.0 |
| | | | 1,948,021.63 | | 2,065,670.20 | 19.9 | 4,771.10 | 0.2 |
| ENERGY | | | | | | | | |
| 1,600 | Atwood Oceanics, Inc. | 30.61 | 48,976.00 | 35.27 | 56,432.00 | 0.5 | 0.00 | 0.0 |
| 715 | Carbo Ceramics | 30.03 | 21,470.66 | 51.55 | 36,858.25 | 0.4 | 343.20 | 0.9 |
| 2,715 | Dril-Quip | 25.84 | 70,155.45 | 49.64 | 134,772.60 | 1.3 | 0.00 | ? |
| 3,220 | Holly Corp | 21.78 | 70,131.60 | 25.62 | 82,496.40 | 0.8 | 483.00 | 0.6 |
| 4,315 | Kirby Corp. | 29.00 | 125,146.65 | 36.82 | 158,878.30 | 1.5 | 0.00 | 0.0 |
| 4,165 | Oil States Intl | 13.01 | 54,193.61 | 35.13 | 146,316.45 | 1.4 | 0.00 | ? |
| 3,000 | Penn Virginia Corp. | 16.50 | 49,490.93 | 22.91 | 68,730.00 | 0.7 | 168.75 | 0.2 |
| 920 | Seacor Smit Inc. | 57.33 | 52,743.30 | 81.63 | 75,099.60 | 0.7 | 0.00 | 0.0 |
| 3,855 | St. Mary Land & Exp. | 17.63 | 67,966.88 | 32.46 | 125,133.30 | 1.2 | 192.75 | 0.2 |
| | | | 560,275.08 | | 884,716.90 | 8.5 | 1,187.70 | 0.1 |
| UTILITIES | | | | | | | | |
| 5,380 | Atmos Energy Corp. | 22.03 | 118,520.56 | 28.18 | 151,608.40 | 1.5 | 1,748.50 | 1.2 |
| 6,765 | Avista Corp. | 16.71 | 113,015.41 | 20.22 | 136,788.30 | 1.3 | 1,116.22 | 0.8 |
| 6,545 | Piedmont Nat. Gas Co. | 24.92 | 163,071.49 | 23.94 | 156,687.30 | 1.5 | 1,701.70 | 1.1 |
| | | | 394,607.47 | | 445,084.00 | 4.3 | 4,566.42 | 1.0 |
| MATERIALS | | | | | | | | |
| 1,700 | Arch Chemicals, Inc. | 25.65 | 43,605.00 | 29.99 | 50,983.00 | 0.5 | 0.00 | 0.0 |
| 2,645 | Texas Industries Inc. | 28.95 | 76,574.37 | 41.99 | 111,063.55 | 1.1 | 198.37 | 0.2 |
| 1,820 | Valmont Industries | 64.27 | 116,977.71 | 85.18 | 155,027.60 | 1.5 | 236.60 | 0.2 |
| | | | 237,157.08 | | 317,074.15 | 3.0 | 434.97 | 0.1 |
| | COMMON STOCK | | 9,004,606.71 | | 10,330,644.30 | 99.4 | 52,584.61 | 0.5 |

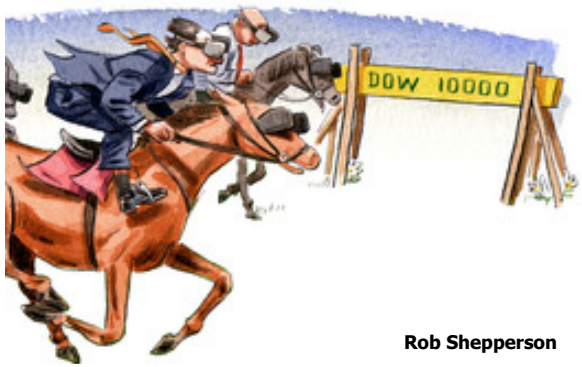
| Quantity | Security | Unit Cost | Total Cost | Price | Market Value | Pct. Assets | Annual Income | Cur. Yield |
|---|---|---|---|---|---|---|---|---|
| **CASH & EQUIVALENTS** | | | | | | | | |
| | Dividend Accrual | | 15,116.00 | | 15,116.00 | 0.1 | 0.00 | 0.0 |
| | Investor MMF | | 50,220.42 | | 50,220.42 | 0.5 | 1,556.83 | 3.1 |
| | MMF Interest Accrual | | 10.00 | | 10.00 | 0.0 | 0.35 | 3.5 |
| | CASH & EQUIVALENTS | | 65,346.42 | | 65,346.42 | 0.6 | 1,557.18 | 2.4 |
| **TOTAL PORTFOLIO** | | | **9,069,953.13** | | **10,395,990.72** | **100.0** | **54,141.79** | **0.5** |

# Dow, Up 15%, Has Best Quarter Since '98

By Tom Lauricella, Wall Street Journal

The stock market continued to confound the skeptics in the third quarter, ending near its highs for the year with many of the riskiest stocks leading the charge.

The rally that began in early spring gained steam over the summer. The Dow Jones Industrial Average jumped 15% in the latest three months for its biggest quarterly gain since the fourth quarter of 1998 and its best third quarter since 1939.




Rob Shepperson

In many cases, the market's leaders were stocks that investors had left for dead earlier in the year. One winner was MGM Mirage, up 88%, and another was Hartford Financial Services Group Inc., up 123%. American International Group Inc. nearly doubled, even though many long-term investors think its shares are essentially worthless. In the bond market, too, the rule of thumb was low credit quality equals high returns.

After seven months of big gains for stocks, investors are concerned about the underlying strength of those risky companies. "You're going to start to see a gulf between the winners and losers emerge...as it comes to the fore which companies are likely to perform and which ones are not," said Karl Mills, chief investment officer for money-management firm Jurika Mills & Keifer.

Now, there is the uncertainty about what will drive the market as the Federal Reserve starts to peel back its layers of support. "Will there be a successful handoff?" asked Anthony Crescenzi, a market strategist at Pacific Investment Management Co.

For the past three months, those concerns were on the back burner as the Dow rose 1265.28 points to 9712.28. Even after a 0.3% decline on the last day of the quarter, the Dow is up 48% from its March 9 low and up 11% this year, although still down 31% from its October 2007 record. The 28% gain over the past six months was the best performance since the two quarters ended in March 1987.

The Standard & Poor's 500-stock index gained 137.76 points, or 15%, to 1057.08, in the third quarter, leaving it up 17% for the year and up 56% from its March low but off 32% from its October 2007 high. It also was the S&P's best quarter since 1998, when the global financial markets were recovering from the Asian financial crisis and the Internet stock bubble was expanding. Then, the market continued to rise until the bubble burst in 2000.

In the final days of the latest quarter, weak consumer-confidence data led to a modest decline Tuesday; on Wednesday, stocks swung between gains and losses before finishing lower after the Chicago Purchasing Managers Index indicated manufacturing sector weakness and a separate report reflected a weak job market.

The powerful rally came as the economy overall showed signs of stabilization. Corporate profits have come in above reduced expectations, in large part due to cost cutting. It steamrolled concerns that consumers remain hobbled by debt, high unemployment and depressed home prices.

The big gains followed a brutal bear market that hit hardest those companies with the shakiest balance sheets, heavy debt loads and high fixed costs. The Fed responded by cutting interest rates essentially to zero and flooded the credit markets with additional money, buying up Treasurys, government-backed mortgage securities and agency debt.

As investors took advantage of the easy money and moved back into riskier assets in the latest quarter, many of the biggest decliners during the crisis posted the largest gains. Financial stocks were the best-performing sector in the S&P 500 last quarter, gaining roughly 25%; followed by materials, up about 21%; and the consumer-discretionary category, which includes autos and casinos, up about 19%. Small-company stocks, too, posted big gains. The Russell 2000 rose 19% and is up 76% from its March low.

In Wall Street lingo, buying volatile stocks is called a "beta trade." It refers to a financial statistic known as the "beta," a measure of an individual stock's moves in relation to the market. A stock with a beta of one posts returns in line with the market. If it has a beta of two, it historically moves twice as much as the market.

A basket of the 20 highest beta stocks in the Russell 1000, as ranked by Nomura Securities International Inc., gained 53% in the third quarter and 141% year to date after a 75% decline in 2008. On that list is Genworth Financial Inc., up 71% last quarter; Las Vegas Sands Corp., up 114%; and TRW Automotive Holdings Corp., up 48%.

"We've had a tremendous lift in those stocks...that were extremely susceptible to a breakdown in the financial system," said Dean Curnutt, president of Macro Risk Advisors. For months, "it has been a beta-driven rally."

If the Fed provided the fuel, it was earnings that lit the match under the high-beta investments, said Binky Chadha, chief strategist at Deutsche Bank. "This has been a rally into which everybody has been pulled kicking and screaming, but it's gone up on proof," he said.

When it came to doubts about earnings, "the most suspect were the lower-quality, high beta" stocks, Mr. Chadha said. In the second and third quarters, portions of the rally were driven by better-than-expected corporate profits.

It was a similar story in the bond market, where high-yield, low-rated junk bonds were the best-performing category. Within the junk-bond market, which often tracks stocks, the riskiest debt posted the biggest gains.

The rally in junk has taken the gap between yields on triple-C-rated corporate debt, deemed to carry a risk of default, and Treasurys below their long-term average. But spreads on higher-quality single-B and double-B debt are above average.

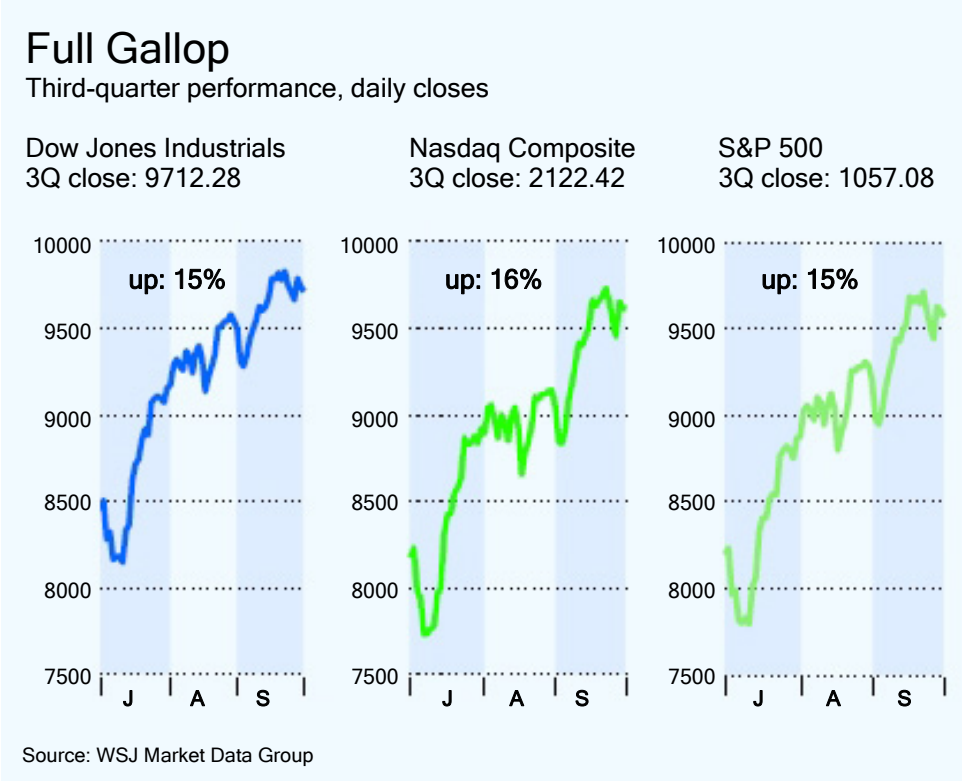
That normally would suggest investors see a below-average risk of default on the most-speculative bonds but higher-than-usual default risk on somewhat safer investments, said Martin Fridson, chief executive of Fridson Investment Advisors. It would be as if investors looked at the shaky economy "and somehow the lower qualities of credit are exempt," he said.

Instead, he said, the disparity reflects a large number of participants whose strategy involves borrowing money at low short-term interest rates and buying the highest-yielding, and thus lowest-quality, debt.

But as markets were closing out the third quarter with gains, the Fed appears to have begun mapping out its exit strategy. The Fed said it will be winding down its program for buying Treasurys at the end of October, and plans to end buying of mortgage and agency debt at the end of the first quarter of 2010.

Last week, Fed governor Kevin Warsh cautioned that Fed policy could "begin normalization...possibly with greater force than is customary," a remark that some interpreted as warning that whenever interest-rate increases begin, they could move faster than the markets have been expecting.

"We've had such a liquidity-driven market," said Mr. Curnutt of Macro Risk Advisors. Against the backdrop of a still-fragile economy, "it's hard to fathom that the Fed is able to take back a trillion dollars and everything's fine."




As the timing of the Fed's next steps become clearer, the best-performing stocks may move from more-speculative companies to those with better earnings quality, Mr. Curnutt said.

Deutsche Bank's Mr. Chadha said the economy can withstand the change from emergency-support measures, in large part because of the cushion from fiscal-stimulus efforts that will kick into higher gear in 2010.

From a sector standpoint, he said areas such as financials and consumer-discretionary stocks have more room to run based on their history in previous economic recoveries.

However, he said, on an individual stock basis, high-volatility companies are stretched.

"Within sectors you want to overweight the higher quality and lower beta names," he said.

Mr. Fridson is a bit more concerned about what will happen once the Fed pulls supports from under the credit markets.

"If the Fed [raises rates] with more than the customary force, it could change the tone of the markets abruptly," he said. When it comes to the most speculative companies, "the catch is that...you have to be the first guy out the door."

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