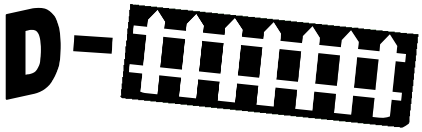
TW ADVISORS

NOVEMBER 2009 NEWSLETTER

ROUND ONE - Market Recovery–Acknowledging an Economic Bottom



We have all witnessed at least one football game on television or in person where a spectator was sporting props like those pictured above! When it is time to hold the line on the field shouts of "De-Fense" are audible throughout the arena. Likewise, if our current portfolio could shout it would be heard voicing the same proclamation.

Like in a football contest it's easier to promote a defensive stance if you have some points on the board already and we are happy for a strong up year in our portfolios after such a miserable start. For now the remarkable post crash rally has reached highs and valuation levels that cause concern. While the market has advanced convincingly from the March 9th bottom, most of the economy is on government life support and it is not certain whether or not a recovery is sustainable.. The real test, we believe will happen shortly when the stimulus programs, responsible for recovery in areas like autos and housing, no longer encourage spending.

The good news is the economy is on the mend due to: time, the stimulus, and especially strong global economic activity. From a benchmarking standpoint, most year over year economic measures should start to show growth after a full year of lower comparisons. Again the question comes to the sustainability of activity after a stimulus driven run. Housing is likely to grow less as the first time buyer $8000 credit expires early next year and auto sales have already suffered since the cash for clunkers program ended. The global economy is still growing but it too has been affected by large stimulus efforts by China and emerging markets. Government spending is "one thing" consumer spending is "another" and our economy depends on consumers.

THE CONSUMER WILL CONTINUE TO CONSUME….. SOME THINGS

Even when times are slow U.S. consumers will consume. They will consume what is necessary but may do without certain discretionary items as they save and reign in spending during uncertain times. In accord with these actions we have been adjusting our portfolios targeting companies whose earnings carry more certainty such as consumer staple stocks versus those whose earnings are more sensitive to economic swings.

Avoiding market risk through market timing can be a difficult and dangerous strategy as many people discovered who were spooked out of the market in the ugliness of March. Emotionally it was a scary time but missing the return off the bottom penalized many investors. To avoid risk at present levels, we own many high dividend paying stocks that have not participated fully in the recovery and continue to maintain some liquidity in portfolios, preferring intermediate-investment grade bonds to cash. Volatility is on the rise and it is our bet it will increase the likelihood of at least a moderate correction. Stay Tuned. We appreciate your continued support and wish you the best.

Steve Wenstrup, Jim Tillar, CFA

OUTSIDE COMMENTARY

Economic and Financial Fundamentals and the Stock Market Outlook GMO Oct. 09

Another Plug for U.S. Quality Stocks

Our main argument is quantitative. Quality stocks (high, stable return and low debt) simply look cheap and have gotten painfully cheaper as the Fed beats investors into buying junk and other risky assets, a hair-of-the-dog strategy if ever there was one. In our seven-year forecast the quality segment has a full seven-percentage-point lead over the whole S&P 500, or 9% over the balance exquality. This is now at genuine outlier levels. In addition, there are qualitative arguments. We like owning high-quality blue chips if we are indeed going into a more difficult seven years than any we have faced since the 1970s. The problems of reducing debt and the potential share dilution that can go with it as it did in Japan for a decade, particularly play to the strength of the largely debt-free high-quality companies. And for nervous investors there is yet another reason for favoring quality stocks: their more than 50% foreign earnings component, which is higher than the balance of the S&P 500 with its heavy financial component. In the long run, quality stocks have proven to be the one free lunch: you simply have not had to pay for the privilege of owning the great safe companies, as plain logic and established theory would both suggest. (Our research) shows that quality stocks have slightly outperformed the market for the last 40 years. Not bad.

Commentary comes from GMO LLC's October 09 Quarterly Letter written by Jeremy Grantham