

WPSTEWART

Annual Investment Seminar Opening Remarks by William P. Stewart November 6th 2009

Good morning. Thanks so much for joining us today.

We've seen a momentous shift in the financial world over the past two years and a significant change in our firm as well.

In the next few hours we'll provide our view on what's happened and how we've positioned your portfolios to optimize future returns while retaining some downside protection through the quality of your investments - something you've always looked to us for.

We'll also bring you up to date on the improvements we've made in our organization over the past few years and why we think getting back to the basics that the business was built on is the best way to go.

Finally, this will be the first seminar we've had without our long-term partner and friend, Bob Kahn's words of wisdom. Bob passed away on October 16th. He was a mentor to most of us who manage your investments today. And he was my partner and friend for 44 years. We'll miss him terribly.

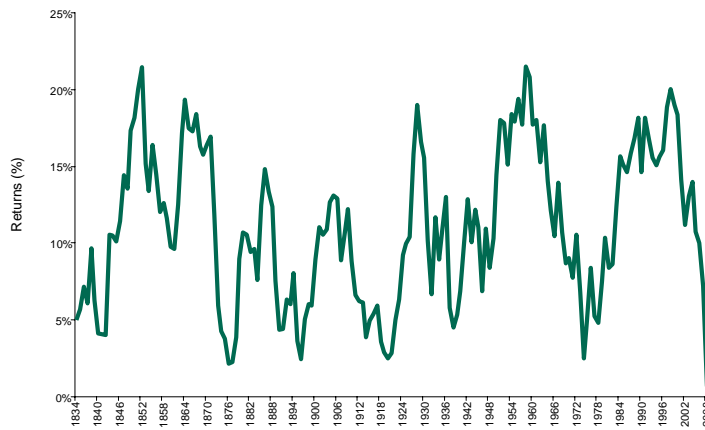
The Market

To get started let me give you my take on where we stand in the extraordinary market cycle we've been living through.

We've just experienced a, hopefully, once in a lifetime market and financial crash - a terrible decade! And most of that terrible decade happened over a period of about a year and a half, ending last April.

So Where Are We Now?

10-Year Moving Avg. U.S. Large Cap Common Stock Nominal Total Return
1825-9/30/2009



Sources: (1925-1925) 'A NEW HISTORICAL DATABASE FOR THE NYSE 1815 TO 1925: PERFORMANCE AND PREDICTABILITY' William N. Goetzman, Roger G. Ibbotson, Liang Peng Yale School of Management. This paper can be downloaded without charge from the Social Science Research Network Electronic Paper Collection: July 14, 2000. (1926-1987) 'IBBOTSON S&P 500 Classic Yearbook: Market Results for Stocks, Bonds, Bills and Inflation 1926-2007' Appendix A: Monthly and Annual Returns on Basic Series (Table A-1: Large Company Stocks: Total Returns), Ibbotson Associates, Morningstar, Inc., Chicago, IL, 2008. (1988-9/30/2009) S&P 500 Index Total Return, Standard & Poor's website.

WPSTEWART

Mark is going to review this chart with you later. It represents the market's trailing ten year returns for the past 180 years. The bad news is that we just went through the absolutely worst decade in those 180 years. But, as you can see, the good news is that, historically, the decade following these occasional crashes is fantastic.

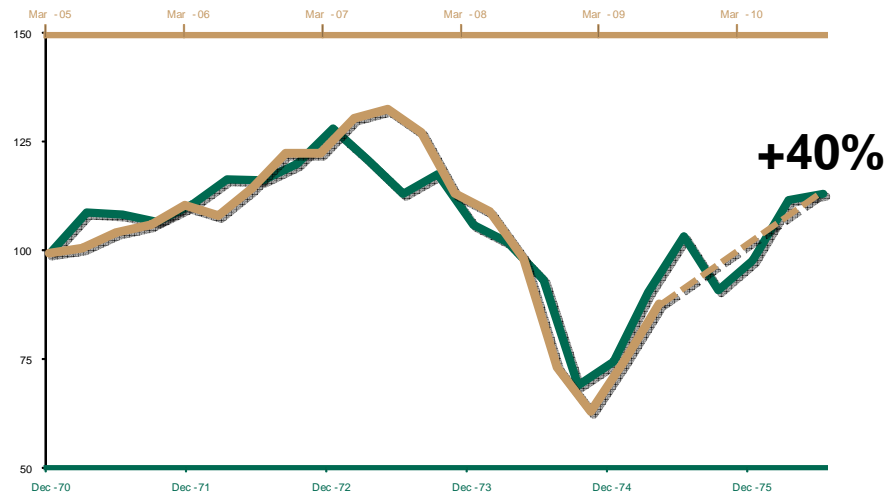
Markets feed on money. I sent you a piece in April pointing out that we had created the biggest bubble ever – the cash bubble. Everybody was selling out and stockpiling cash and treasury bills. There was more cash on the sidelines than the value of all the stocks in the Russell 5000 index. This is the market's fuel tank – and it's pretty full.

Mark will show you that some of that record pile of cash has now moved to bonds – but our research indicates that very little of it has come back to the U.S. stock market yet. So we have that to look forward to. The market could go a lot further when it happens.

While the recent crash was the greatest any of us has lived through, it was remarkably similar to the 1973 – 74 debacle. Aundrea Im developed this chart which overlays recent market trends with that decline and eventual rebound.

Market Correction

S&P 500 Indexed to 100 on 12/31/1970 & 12/31/2005



WPSTEWART™

If we follow this general trajectory, and I think we might, we could see another 40% or so rise in the coming year or two. Though, at least a few shakeouts are likely along the way.

There are lots of things that could make this prospect easier or harder to achieve and we could discuss them all day. But suffice to say that by historical standards the market still offers good value and there is plenty of cash on the sidelines that could come back into the market as investors regain confidence. Stocks are still cheap by historical standards and if we can get even close to what we used to call “normal”, the investment returns we’ll earn are certainly worth holding on for.

Corporate Developments

Now most of you know we’ve made changes in our firm in the past three years. Let me take a few minutes to review them.

First and foremost - Research

You all know that we got pretty fantastic investment results for decades through consistently investing in great businesses that could, as a group, double their earning power every five years. That’s growth of about 15% a year. We developed an appraisal system to rank these businesses and focused your portfolios on the most attractively valued issues. Furthermore, we had always performed particularly well in weak markets when quality and steady growth were especially prized.

While no decision was ever made to deemphasize faster growth or compromise quality, projected long-term earnings growth behind our clients' portfolios receded to about ten percent by 2006, the number of companies in our investment universe was well below what I consider a minimum level, quality may have been slightly reduced and for the first time we under performed in a weak market. I came back to the firm in early 2007 with a commitment to work with our core analysts to refocus on faster long-term earnings growth, broaden our research and re-emphasize quality in everything we do.

Progress on that front is evident. Earnings growth behind your portfolios is now about 14% and our investment universe is once again large enough to offer the investment alternatives we need to manage effectively.

We have a great, collegial research and portfolio management team dedicated to quality/growth investing. Morale is far better and – most importantly – performance has improved dramatically. So much so that we outperformed virtually all of our peers last year and are running about 550 basis points ahead of the S&P, after fees, so far this year. Despite the bad 2006, we now rank well above the majority of our peer group managers for the past one, three, five and ten year periods.

Jim Tierney and his colleagues just get better every month and I feel very good about being on the right road in this, the vital core of our business.

Operating and Financial Stability

The turmoil and short period of underperformance that convinced me to come back to the firm in early 2007 led to an exodus of clients and, in turn, a dramatic reduction in the size of the business. Costs and personnel had to be reduced while research and portfolio management was strengthened. For a firm which had always grown this was an excruciating experience. But at this point I can tell you that we did it. While we'll always have room for strategic improvement, we have the key people we need to continue to do a great job of managing your money. Half that team has been with the firm for a decade or more and those we've added in the past three years are truly first class. It's been a good market in which to attract new talent.

We have a wonderful and very experienced client service group. And most of them have been with us for a number of years as well. The same thing is true of our financial and operations people. Sadly these departments took the brunt of personnel cut backs. But those that remain standing are really special.

You may recall that we took on Arrow Management as a financial partner about 14 months ago. We work closely with Arrow and look forward to continuing this relationship in the years ahead.

Finally, we have a very strong balance sheet with approximately \$40 million in cash and marketable securities and no debt. In a relatively small firm like ours this is enough to keep us going for many years to come at our present size. Of course with new money finally starting to come in and a better market we hope to see that liquidity increase in coming years. But it's really nice to know its there if the market doesn't cooperate.

Summary

We think the market probably bottomed last spring and should work higher in the next few years.

Our firm shrunk in size with the double whammy of a dispute over investment policy three years ago and the financial crash. Our organization rose to that challenge and I think we're well along a clear path to what we expect will be continued long-term outperformance.

A fine team of investment pros at all levels is backed by a very solid balance sheet giving us lots of staying power. Importantly, that team is both young and experienced. Importantly, that team is dedicated to managing your money in the way that we've proven works so well over time. I know you'll enjoy hearing from some of the group today and questioning all of us following the formal presentations.

###