

GREY INVESTMENTS FAMILY FIDUCIARY SERVICES, INC.

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Investment Letter

Third Quarter, 2009

Just a short note to share with you the conclusions of our last investment committee meeting and to review year-to-date results of your account. Our view on the economy has changed little since the second quarter letters.

1. A depression has been avoided and we should see the U. S. economy return to positive growth rates in 2010;
2. The recovery will be uneven, as unemployment continues to increase, exceeding 10% by early next year;
3. Do not become overconfident with the recent stock market rally, as potential shocks remain (California defaults on its debt), inflation takes hold as a result of too much stimulus or the recovery is derailed by geopolitical issues;
4. Inflation remains the biggest threat to portfolios with deflationary risks fading as the stimulus plans take hold;
5. We have added a small asset allocation to oil prices as another asset category besides Inflation Protected Bonds to offset inflation risks. The allocation will be added to portfolios as we rebalance prior to year-end.

The good news is that investment performance of individual accounts has been quite strong, as our thoughts on asset sectors we felt were "cheap" have proven to be fairly accurate. Additionally, we have seen outperformance relative to benchmarks as the vehicles we used have performed well.

1. On the equity side our allocation to emerging markets (Brazil, India, China) has been very profitable with gains exceeding 60% in 2009;
2. Allocations to international developed markets (Western Europe) up 25% and U. S. markets up 21% have helped returns;
3. Our investment work with Professor Simon has paid dividends, as our asset allocation for bonds outperformed the Barclays Aggregate Bond Index. For example, intermediate term corporate bonds have advanced over 16% through September 30, 2009 and municipal bonds are up over 14% during the same period;
4. Eliminating our allocation to gold at approximately the \$750 level has not worked well as gold continues to move higher on inflation speculation.

Big picture, your account fell less than the overall market last year as bond allocations cushioned losses, and we raised substantial cash levels during the fall of 2008. Your account was fully invested to start this year and has participated in the current equity market rally with aggressive accounts beating the S&P 500. We will be contacting you during the next two weeks to discuss your own investment returns for the year and to review your risk tolerance going forward.

David L. Grey
President & Chief Investment Officer