AndersonGriggs

"Common Sense Investing for Intelligent Investors"

Our Five Year Forecast Beginning December 31, 2009
Appendix A: S&P 500 – S&P 400 – S&P 600
Appendix B: Sectors

Executive Summary & Methodology

We believe that predicting short term swings in the market is an exercise in humility. Longer-term market predictions can have some value, but they should be based on a form of valuation methodology of the underlying securities which make up the market of choice, and a consideration of the current mood of the market participants should also be included.

We don't believe there are scientific factors which can be isolated and replicated to provide insight into short-term market predictions. **However, we do know that over longer periods of time, the price of a security or the total market value of all the securities in a market will approximate the underlying capital retained and available for earning future income for its owners.** This may not make much sense, so I'll illustrate with an example. Wal-Mart is the world's largest retailer. Most of us know the story of Sam Walton and his creation, with a single store, of Wal-Mart in 1962. In 1970, the company issued stock for the first time and raised $3,400,000. If the market never recognized the value of capital growth over time, then Wal-Mart would only be valued for $3,400,000 instead of the $209 billion that it is today.

With that in mind it's easier to understand how our approach to predicting market returns is based primarily on the analysis of current capital and the return potential of that capital, with only a stab at predicting the current mood of investors.

The tables in Appendix A and B may look confusing to you, but it gives us a basis for a projection of both the level of the market five years into the future as well as of the expected returns, in the form of dividends and growth of capital over time. Beware of taking this at face value, however. **Our methods are based on a statistical model which does not take into consideration human emotions, the primary driver of short-term market prices both at the market level and at the individual stock level.** These valuations will not mirror others because our calculation methods are based on a proprietary weighting method. The tables do not factor in any changes yet to occur which may affect prices or emotions.

Given these caveats our projections would indicate the following:

Our calculated return potential for holding the S&P 500, S&P 400 and S&P 600 ending five years from 12-31-09 are:

S&P 500: 10.38%   S&P 400: 8.38%   S&P 600: 6.94%

Given the estimated returns as calculated, we are overweighing larger companies.

We update our projections weekly. We not only complete this work for the S&P 500, S&P 400 and the S&P 600, but we also calculate a estimated return potential for each major industry sector. The constituents of each sector are companies that are currently included in the S&P 500 and whose industry is assigned by Standard & Poors.

Our calculated return potential for each sector ending five years from 12-31-09 are:

Consumer Discretion:	**7.829%**	**Industrials:**	**10.392%**
Consumer Staples:	**11.730%**	**Materials:**	**7.882%**
Energy:	**12.582%**	**Technology:**	**9.245%**
Financials:	**7.189%**	**Utilities:**	**14.507%**
Health Care:	**12.632%**		

It is time consuming and takes both Justin and I together a full day simply to run the quantitative models. But what is more important to you is that these models are used as a guide in the overall direction of your portfolio. We use these numbers to compare one alternative to all other alternatives, and this is the real value of the work. Every day the market offers us a choice of where we can invest. By producing a quantitative study based on sound theory, a choice as to where to deploy our funds can be made on an apple-to-apple comparison.

What about emotions?

Emotions are and will continue to be the drivers of short-term demand for stocks and bonds. At the individual stock level we believe we can isolate certain human traits which drive this demand. However, at the broader market levels, we believe that markets regress to the mean, and the method to judge emotions is more intuitive than quantitative. **In other words, it pays to be somewhat of a contrarian and to try not to become a member of the Buy High/Sell Low Club.** Over the next twelve months we believe that history will be a helpful guide to understanding "regression to the mean" and the emotions that have driven previous investor buying decisions after other market declines.

Worst Periods of Market Declines in the Dow Jones Industrial Averages		Within 1 year	Within 3 Years	Within 5 Years
Sep. 1929 – Jul 1932	-89.5%	+172.2%	+212.8%	+381.8%
Mar. 1937 – Mar. 1938	-50.2%	+63.0%	+42.4%	+40.7%
Jan. 1973 – Dec. 1974	-46.6%	+56.0%	+80.0%	+59.3%
Sep. 1939 – Apr. 1942	-41.3%	+48.3%	+78.8%	+130.2%
Aug. 1987 – Oct. 1987	-41.2%	+35.8%	+87.1%	+112.5%

Jan. 2000 – Oct. 2002	-38.8%	+36.9%	+52.6%	+97.3%
Dec. 1968 – May 1970	-36.9%	+52.7%	+70.1%	+38.4%
Nov. 1961 – Jun. 1962	-29.2%	+39.7%	+80.1%	+90.8%
Sep. 1976 – Feb. 1978	-27.7%	+22.3%	+36.5%	+53.0%
Feb. 1966 – Oct. 1966	-26.5%	+29.4%	+35.2%	+30.2%
Oct. 2007 – March 2009	-56.78%	?	?	?
Average	-44.06%	+55.6%	+77.6	+103.4

Courtesy of Zacks Research

Since the March 2009 lows, the S&P 500 has gained 67%. Although this seems extraordinary, the recovery is the new median when we look at the history of bear markets. In other words, one-half of the bear markets have had a twelve month recovery exceeding the current recovery since last March. Believing that the market will not go up because it has gone up so much since last year should not have any impact over the next twelve months.

The rapid increase in prices is reflected in our calculation, and as such, the potential return over the next five years is close to the normal returns that US stock markets have experienced over many years.

Given our quantitative work combined with history and a regression to the mean, it would seem logical to maintain a commitment to common stocks relative to alternatives in the market place. For those of you who are number crunchers who would like to speak with us in more detail about our quantitative work, by all means give us a call.

Other Concerns:

Interest Rates: Interest rates have always been the primary driver for individual investors' allocations. A gradual rise in rates from the current levels is already priced into common stocks. A gradual rise will actually be a benefit to our clients who desire less volatility and higher income returns in their portfolio. There is however, a possibility of an unexpected and dramatic rise in rates. If this possibility becomes a reality, then common stock prices will suffer.

Unemployment: It will take approximately 100,000 new jobs a month to maintain the current unemployment level at 10%. Barring any large increase in unemployment, maintaining the current level is not a hindrance to equity prices. In fact, the new jobs required to break even is a positive for US GDP. Minor fluctuations in the reported figure may have a short term negative or positive impact but nothing of great concern.

The 2010 Election: Politics bring out the worst in people. The bantering that will take place can produce a level of fear into the minds of all of us and fear can be reflected in the market. The promises that our politicians will put forward are taken as certainty by many, although the majority of campaign promises never become reality. Fear of the future can have a short term negative impact on the market prices of both stocks and bonds.

Black Swans: Events that are unseen and impossible to predict are a fact of life. The fact is, most of us have no way to protect ourselves against such events, yet they will happen.

Kendall J. Anderson, CFA
12-31-09

Appendix A*
12-31-09 Anderson Griggs Portfolio Management

S&P 500

S&P 500 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= $20.01	P/B= 3.485	P = $69.73	BVG=11.05	ROE = 19.87
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$4.41	$4.90	$5.44	$6.04	$6.71
EBV	$22.22	$24.68	$27.41	$30.44	$33.80
Prj %	6.33%	7.03%	7.81%	8.67%	9.63%
Div	2.00%	2.22%	2.47%	2.74%	3.04%
Prj% +_Div	8.33%	9.25%	10.28%	11.41%	12.67%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 10.38%
S&P 500 Index level ending 12-31-09: 1115.10
S&P 500 Projected Index level ending five years from 12-31-09: 1629.95

S&P 400

S&P 400 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= $17.38	P/B= 2.737	P = $47.56	BVG=11.25	ROE = 13.02
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$2.52	$2.80	$3.12	$3.47	$3.86
EBV	$19.34	$21.52	$23.94	$26.63	$29.63
Prj %	5.29%	5.89%	6.55%	7.29%	8.11%
Div	1.40%	1.56%	1.74%	1.94%	2.16%
Prj% +_Div	6.69%	7.45%	8.29%	9.22%	10.27%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 8.38%
S&P 400 Index level ending 12-31-09: 726.67
S&P 400 Projected Index level ending five years from 12-31-09: 1001.29

S&P 600

S&P 600 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= $14.66	P/B= 2.328	P = $34.13	BVG=10.94	ROE = 9.20
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$1.50	$1.66	$1.84	$2.04	$2.26
EBV	$16.26	$18.04	$20.01	$22.20	$24.63
Prj %	4.38%	4.86%	5.39%	5.98%	6.63%
Div	1.2%	1.33%	1.48%	1.64%	1.82%
Prj% +_Div	5.58%	6.19%	6.87%	7.62%	8.45%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 6.94%
S&P 600 Index level ending 12-31-09: 332.63
S&P 600 Projected Index level ending five years from 12-31-09: 433.60

***Must be presented with Executive Summary that includes philosophy and methodology dated 12-31-09.**

Appendix B*
12-31-09 Anderson Griggs Portfolio Management

Consumer Discretionary

CD Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= 14.37	P/B= 3.8922	P = $55.93	BVG=8.06	ROE = 17.33
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$2.69	$2.91	$3.14	$3.39	$3.66
EBV	$15.53	$16.78	$18.13	$19.59	$21.17
Prj %	4.81%	5.20%	5.62%	6.07%	6.56%
Div	1.4%	1.51%	1.63%	1.76%	1.90%
Prj% +_Div	6.21%	6.71%	7.25%	7.83%	8.46%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 7.829%

Consumer Staples

CS Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= $13	P/B= 5.315	P = $69.10	BVG=14.22	ROE = 27.71
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$4.11	$4.69	$5.36	$6.12	$6.99
EBV	$14.85	$16.96	$19.37	$22.12	$25.27
Prj %	5.95%	6.80%	7.77%	8.87%	10.13%
Div	2.9%	3.31%	3.78%	4.32%	4.93%
Prj% +_Div	8.85%	10.11%	11.55%	13.19%	15.06%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 11.730%

Energy

EN Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= $27.27	P/B= 2.4186	P = $65.96	BVG= 18.03	ROE= 13.76
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$4.43	$5.23	$6.17	$7.28	$8.59
EBV	$32.19	$37.99	$44.84	$52.92	$62.46
Prj %	6.71%	7.92%	9.35%	11.04%	13.03%
Div	2.1%	2.48%	2.93%	3.46%	4.08%
Prj% +_Div	8.81%	10.40%	12.28%	14.50%	17.11%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 12.582%

Financial

FI Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= 35.16	P/B= 1.4464	P = $50.86	BVG=7.86	ROE =6.50
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$2.46	$2.65	$2.86	$3.08	$3.32
EBV	$37.92	$40.90	$44.11	$47.58	$51.32
Prj %	4.85%	5.23%	5.64%	6.08%	6.56%
Div	1.3%	1.40%	1.51%	1.63%	1.76%
Prj% +_Div	6.15%	6.63%	7.15%	7.71%	8.32%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 7.189%

Health Care

HC Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= 13.96	P/B= 3.3445	P = $46.69	BVG=10.34	ROE = 25.10
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$3.87	$4.27	$4.71	$5.20	$5.74
EBV	$15.40	$16.99	$18.75	$20.69	$22.83
Prj %	8.28%	9.14%	10.09%	11.13%	12.28%
Div	2%	2.21%	2.44%	2.69%	2.97%
Prj% +_Div	10.28%	11.35%	12.53%	13.82%	15.25%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 12.632%

Industrials

IN Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= 17.61	P/B= 3.3093	P = $58.28	BVG=8.44	ROE = 20.10
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$3.84	$4.16	$4.51	$4.89	$5.30
EBV	$19.10	$20.71	$22.46	$24.36	$26.42
Prj %	6.58%	7.14%	7.74%	8.39%	9.10%
Div	2.2%	2.39%	2.59%	2.81%	3.05%
Prj% +_Div	8.78%	9.53%	10.33%	11.20%	12.15%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 10.392%

Materials

MA Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= 15.14	P/B= 3.18	P = $48.21	BVG=10.98	ROE = 13.28
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$2.23	$2.47	$2.74	$3.04	$3.37
EBV	$16.80	$18.64	$20.69	$22.96	$25.48
Prj %	4.63%	5.14%	5.70%	6.33%	7.03%
Div	1.7%	1.89%	2.10%	2.33%	2.59%
Prj% +_Div	6.33%	7.03%	7.80%	8.66%	9.62%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 7.882%

Technology

TE Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= 17.02	P/B= 4.5756	P = $77.88	BVG=12.38	ROE = 23.27
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$4.45	$5.00	$5.62	$6.32	$7.10
EBV	$19.13	$21.50	$24.16	$27.15	$30.51
Prj %	5.72%	6.43%	7.23%	8.13%	9.14%
Div	1.5%	1.69%	1.90%	2.14%	2.40%
Prj% +_Div	7.22%	8.12%	9.13%	10.27%	11.54%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 9.245%

Utilities

UT Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 12-31-09

Current Est.	BV= 22.72	P/B= 1.6833	P = $38.24	BVG=7.36	ROE = 13.06
Year Ending	12-31-2010	12-31-2011	12-31-2012	12-31-2013	12-31-2014
EEPS	$3.19	$3.42	$3.67	$3.94	$4.23
EBV	$24.39	$26.19	$28.12	$30.19	$32.41
Prj %	8.33%	8.94%	9.60%	10.31%	11.07%
Div	4.2%	4.51%	4.84%	5.20%	5.58%
Prj% +_Div	12.53%	13.45%	14.44%	15.51%	16.65%

BV = Book Value P/B = Price to Book P = Current Price BVG = Book Value Growth
ROE = Return on Equity EEPS = Est. Earnings Per Share EBV = Est. Book Value
Prj% = Projected return as % Div = Dividend Yield

An investor's expected five year compounded return from 12-31-09: 14.507%

*Must be presented with Executive Summary that includes philosophy and methodology dated 12-31-09.

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