



AndersonGriggs

“Common Sense Investing for Intelligent Investors”

Our Five Year Forecast Beginning June 30, 2010

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. A consideration of the current mood of the market participants should also be included in that short term prices can be driven by emotions.

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 \$180 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 mathematical 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 (Compounded Annual Growth Rate) for holding the S&P 500, S&P 400 and S&P 600 ending five years from 6-30-2010 are:

S&P 500: 11.45% S&P 400: 8.31% S&P 600: 7.40%

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 (Compounded Annual Growth Rate) or each sector ending five years from 6-30-2010 are:

Consumer Discretion:	9.23%	Industrials:	10.07%
Consumer Staples:	12.31%	Materials:	11.99%
Energy:	12.45%	Technology:	11.59%
Financials:	9.15%	Utilities:	16.41%
Health Care:	14.98%		

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 twenty-four 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 major 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%	+61.36	?	?
Average	-44.06%	+56.15	+77.6	+103.4

Courtesy of Zacks Research and DTN.IQ

Since the March 2009 lows, the S&P 500 has gained 52%. Although this seems extraordinary, the recovery is slightly less than average when we look at the history of bear markets. An average recovery would have the markets appreciate more than 25% from this level over the next two years. 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 24 months.

The rapid increase in prices since the March 2009 low is reflected in our calculation, and as such, the potential return over the next five years is just slightly above the normal returns that US stock markets have experienced over many years.

For most individual investors the primary question is; How much of my investable funds should I expose to common stocks (or some other form of equity ownership) versus lending my funds and being paid an interest payment for its use? The Treasury yield curve is a helpful guide.

Daily Treasury Yield Curve Rates as provided by the U.S. Treasury on 6-30-2010

Maturity	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	20 yr	30 yr
YTM	0.17	0.18	0.22	0.32	0.61	1.00	1.79	2.42	2.97	3.74	3.91

Given our quantitative work combined with history, regression to the mean and the current level of interest rates it would seem logical to maintain a commitment to common stocks. 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 current rates 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 fixed income investments will be devastated while common stock prices will suffer.

Unemployment: An unemployment level hovering around 10% is simply terrible. However, barring any large increase in the unemployment, maintaining the current level is not a hindrance to equity prices. 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 takes place can produce a level of fear into the minds of us all which can be reflected in the market. The promises that our politicians 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.

Taxes: The current rates applied to individual and business income are scheduled to rise next year. Much of this is already priced in the markets. The surprise would be if the scheduled rate increases were deferred or eliminated.

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
06-30-2010

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Appendix A*

6-30-2010 Anderson Griggs Portfolio Management

S&P 500

S&P 500 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-10

Current Est.	BV= \$22.69	P/B= 3.048	P = \$69.15	BVG=11.54	ROE = 19.43
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$4.92	\$5.49	\$6.12	\$6.82	\$7.61
EBV	\$25.31	\$28.23	\$31.49	\$35.12	\$39.17
Prj %	7.11%	7.93%	8.85%	9.87%	11.01%
Div	2.00%	2.23%	2.49%	2.78%	3.10%
Prj% +_Div	9.11%	10.16%	11.34%	12.65%	14.11%

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 annual return from 6-30-10: 11.45%

S&P 500 Index level ending 6-30-10: 1,030.71

S&P 500 Projected Index level ending five years from 6-30-10: 1,581.90

S&P 400

S&P 400 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-10

Current Est.	BV= \$18.88	P/B=2.844	P = \$53.69	BVG=10.92	ROE = 13.57
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$2.84	\$3.15	\$3.49	\$3.87	\$4.29
EBV	\$20.94	\$23.23	\$25.77	\$28.58	\$31.70
Prj %	5.29%	5.87%	6.51%	7.22%	8.01%
Div	1.40%	1.55%	1.72%	1.91%	2.12%
Prj% +_Div	6.69%	7.42%	8.23%	9.13%	10.13%

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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 annual return from 6-30-2010: 8.31%

S&P 400 Index level ending 6-30-2010: 711.73

S&P 400 Projected Index level ending five years from 6-30-2010: 978.60

S&P 600

S&P 600 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-2010

Current Est.	BV= \$15.20	P/B= 2.214	P = \$33.65	BVG=10.65	ROE = 9.76
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$1.64	\$1.81	\$2.00	\$2.21	\$2.45
EBV	\$16.82	\$18.61	\$20.59	\$22.78	\$25.21
Prj %	4.88%	5.40%	5.98%	6.62%	7.33%
Div	1.10%	1.22%	1.35%	1.49%	1.65%
Prj% +_Div	5.98%	6.62%	7.33%	8.11%	8.98%

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 annual return from 6-30-10: 7.40%

S&P 600 Index level ending 6-30-10: 327.97

S&P 600 Projected Index level ending five years from 6-30-10: 439.69

***Must be presented with Executive Summary that includes philosophy and methodology dated 6-30-10.**

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Appendix B*

6-30-2010 Anderson Griggs Portfolio Management

Consumer Discretionary

CD Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-10

Current Est.	BV= \$15.35	P/B= 3.158	P = \$48.47	BVG=8.80	ROE = 17.86
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$2.98	\$3.24	\$3.53	\$3.84	\$4.18
EBV	\$16.70	\$18.17	\$19.77	\$21.51	\$23.40
Prj %	6.15%	6.69%	7.28%	7.92%	8.62%
Div	1.60%	1.74%	1.89%	2.06%	2.24%
Prj% +_Div	7.75%	8.43%	9.17%	9.98%	10.86%

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 annual return from 6-30-10: 9.23%

Consumer Staples

CS Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-10

Current Est.	BV= \$14.78	P/B= 4.309	P = \$63.69	BVG=12.03	ROE = 24.97
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$4.13	\$4.63	\$5.19	\$5.81	\$6.51
EBV	\$16.56	\$18.55	\$20.78	\$23.28	\$26.08
Prj %	6.49%	7.27%	8.14%	9.12%	10.22%
Div	3.20%	3.58%	4.01%	4.49%	5.03%
Prj% +_Div	9.69%	10.85%	12.15%	13.61%	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 annual return from 6-30-10: 12.31%

Energy

EN Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-10

Current Est.	BV= \$29.00	P/B= 2.167	P = \$62.85	BVG= 15.13	ROE= 13.23
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$4.42	\$5.09	\$5.86	\$6.75	\$7.77
EBV	\$33.39	\$38.44	\$44.26	\$50.96	\$58.67
Prj %	7.03%	8.09%	9.31%	10.72%	12.34%
Div	2.20%	2.53%	2.91%	3.35%	3.86%
Prj% +_Div	9.23%	10.62%	12.22%	14.07%	16.20%

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 annual return from 6-30-10: 12.45%

Financial

FI Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-10

Current Est.	BV=\$36.45	P/B= 1.340	P = \$48.83	BVG=6.73	ROE = 8.67
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$3.37	\$3.60	\$3.84	\$4.10	\$4.38
EBV	\$38.90	\$41.52	\$44.31	\$47.29	\$50.47
Prj %	6.90%	7.36%	7.86%	8.39%	8.95%
Div	1.10%	1.17%	1.25%	1.33%	1.42%
Prj% +_Div	8.00%	8.53%	9.11%	9.72%	10.37%

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 annual return from 6-30-10: 9.15%

Health Care

HC Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-10

Current Est.	BV= \$17.68	P/B= 2.812	P = \$49.72	BVG=12.17	ROE = 23.74
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$4.71	\$5.28	\$5.92	\$6.64	\$7.45
EBV	\$19.83	\$22.24	\$24.95	\$27.99	\$31.40
Prj %	9.47%	10.62%	11.91%	13.36%	14.99%
Div	2.30%	2.58%	2.89%	3.24%	3.63%
Prj% +_Div	11.77%	13.20%	14.80%	16.60%	18.62%

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 annual return from 6-30-10: 14.98%

Industrials

IN Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-10

Current Est.	BV=\$17.33	P/B= 3.781	P = \$65.52	BVG=9.76	ROE = 20.80
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$3.96	\$4.35	\$4.77	\$5.24	\$5.75
EBV	\$19.02	\$20.88	\$22.92	\$25.16	\$27.62
Prj %	6.04%	6.63%	7.28%	7.99%	8.77%
Div	2.20%	2.41%	2.65%	2.91%	3.19%
Prj% +_Div	8.24%	9.04%	9.93%	10.90%	11.96%

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 annual return from 6-30-10: 10.07%

Materials

MA Sector 5-Year Estimated Earnings, Dividends and Projected Returns as 6-30-10

Current Est.	BV= \$17.53	P/B= 2.768	P = \$48.52	BVG=12.90	ROE = 18.12
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$3.59	\$4.05	\$4.57	\$5.16	\$5.83
EBV	\$19.79	\$22.34	\$25.22	\$28.47	\$32.14
Prj %	7.39%	8.34%	9.42%	10.64%	12.01%
Div	1.90%	2.15%	2.43%	2.74%	3.09%
Prj% +_Div	9.29%	10.49%	11.85%	13.38%	15.10%

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 annual return from 6-30-10: 11.99%

Technology

TE Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-10

Current Est.	BV= 14.74	P/B= 3.660	P = \$53.95	BVG=14.50	ROE = 22.69
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$3.83	\$4.39	\$5.03	\$5.76	\$6.60
EBV	\$16.88	\$19.33	\$22.13	\$25.34	\$29.01
Prj %	7.10%	8.13%	9.31%	10.66%	12.21%
Div	1.60%	1.83%	2.10%	2.40%	2.75%
Prj% +_Div	8.70%	9.96%	11.41%	13.06%	14.96%

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 annual return from 6-30-10: 11.59%

Utilities

UT Sector 5-Year Estimated Earnings, Dividends and Projected Returns as of 6-30-10

Current Est.	BV= \$24.94	P/B= 1.43	P = \$35.61	BVG=8.25	ROE = 12.57
Year Ending	6-30-2011	6-30-2012	6-30-2013	6-30-2014	6-30-2015
EEPS	\$3.39	3.67\$	3.97\$	4.30\$	4.65\$
EBV	\$27.00	\$29.23	\$31.64	\$34.25	\$37.08
Prj %	9.53%	10.32%	11.17%	12.09%	13.09%
Div	4.40%	4.76%	5.15%	5.57%	6.03%
Prj% +_Div	13.93%	15.08%	16.32%	17.66%	19.12%

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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 annual return from 6-30-10: 16.41%

***Must be presented with Executive Summary that includes philosophy and methodology dated 6-30-10.**

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