

July 21, 2009

To MCA Clients and Friends:

We are pleased to bring you our report for the second quarter of 2009.

Our last letter opened on an optimistic note, suggesting that, while there was still a lot of work to do (and time to pass) before our economic worries were behind us, the efforts undertaken by the U.S. government and other governments around the world should bode well for the markets, at least in the near term. The equity markets rallied, with the Dow Jones Industrial Average, S&P 500 and NASDAQ gaining 11%, 15%<sup>1</sup> and 20%, respectively during the quarter. Foreign markets had similar gains. Corporate bonds also jumped more than 11%, reflecting businesses' ability to borrow money at lower rates and investors' confidence in their ability to re-pay that debt. Commodities followed suit, with oil hitting a 2009 high of \$71.79 on June 10.

After a bit of stabilizing a bit in its first few days the third quarter has picked up right where the second quarter left off, apparently shrugging off the July 2 unemployment figures, which were dismal and far worse than had been forecast. This leads us to believe that the rally we are seeing develop is indeed real and not a "bear" trap. On the other hand, we continue to remain somewhat circumspect about the pace of investment recovery in light of the tremendous damage done to consumer balance sheets and to the economy as a result of the past 50 years of easy credit and, in many cases, the assumption of excessive amounts of debt. We are most certainly not suggesting that the current period does not represent a wonderful investment opportunity – it most certainly does. It is just that near term equity performance is likely to be somewhat constrained as consumers and nations around the world increase spending at a relatively slower rate than what has typically fueled the recovery from past recessions.

With the bursting of the housing bubble during 2008, the enormous leverage taken on by the American consumer became painfully apparent. Although there can be no quick fix to this very serious situation, we are beginning to see home buyers testing the waters as a result of the wonderful buying opportunities that are available across the country. Couple this with the very attractive interest rates that have been fostered by the extreme easing of credit on the part of both

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<sup>1</sup> This was the S&P 500 Index's best quarter since 1998

monetary and fiscal authorities, and we begin to see the economic recovery developing some serious traction.

One other important factor that makes this recession somewhat unique is the emphasis being placed on regulatory reform of financial and investment markets, with special focus on those institutions that pose so-called “systemic” risk to the economy. The regulatory changes we are likely to witness in the coming years will be the most broad-based since the 1930’s. The FDIC, for example, created in the 1930’s to address the meltdown of banks during financial contractions, has been instrumental in mitigating the boom and bust periods that characterized the American economy prior to the great depression. This time it is unregulated investment instruments being created by Wall Street firms that must be addressed and we have no doubt that the resulting economic and regulatory reforms soon to be enacted, will have a very positive impact on investment markets in the coming decades.

While of course we are pleased with the glimmers of economic recovery and optimism that seem to be out there, we caution against one quarter (good or bad) being the basis for establishing or altering an investment plan. Rather, as we have consistently recommended, any investment plan should be set up and managed based on your objectives, resources, time horizon and risk tolerance, not on emotional reactions to short-term market developments. Resist irrationality and embrace discipline.

We thank you for your confidence in Midwest Capital Advisors, and, as always, we welcome your thoughts and questions.

Sincerely,

*George P. Wanty, III*

*Henry G. Swain*