

October 12, 2009

To MCA Clients and Friends:

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

Earnings season is again upon us, and corporate America is giving us our first taste of 3<sup>rd</sup> quarter operating results. Corporate profits generally seem to be coming in above expectations (although expectations were, by and large, modest). As one would expect, the equity markets continued to react positively to the news<sup>1</sup>. What is more unusual is that the bond market, which more often than not does not move in the same direction as the equity markets, also rose significantly (and across the board) for a second straight quarter. Bonds, and particularly Treasuries, seem to be the first step back into the market for many investors who are tired of anemic cash yields, as well as serving as a hedge against an equity market that they are not totally comfortable with.

While this is of course good news, most of the gains came through cost cutting, not increased revenues. But, nonetheless, there is a clear sense of optimism developing amongst market participants that we believe will continue to carry our investment markets upward. We doubt if the increase will be quite as brisk, since the pace of the recovery in investment markets has been remarkable. And, yet, there does continue to be room for optimism when one considers that the Leading Economic Indicators continue to strengthen, even to levels that have not been seen since the pre-recession period of 2007.

At the same time, however, there is concern about the increasing jobless rate in the U.S. This pattern of increasing joblessness is not atypical at this stage of an economic recovery, since companies prefer to wait until there is confirmed certainty that we are making our way out of the recession before they start hiring again. When that certainty finally occurs, the jobless rate will drop quickly. Remember that the jobless rate is a lagging indicator; the stock market is a leading indicator and traders are clearly betting that the economic recovery is moving forward and unemployment in the U.S. will begin to fall.

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<sup>1</sup> The Dow gained 15% during the quarter, its best performance since 1998. This follows on the heels of the second quarter being the S&P 500's best quarter since 1998, as we observed in our last letter

That being said, we will be looking to this earnings season for confirmation that our investment markets have not gotten ahead of themselves. If earnings meet, or beat, analyst expectations (and, in particular if more of those earnings are attributable to higher revenues than to lower costs) we believe investment markets will continue to move upward, perhaps not at the pace of the past several months but still upward and signaling that the worst is indeed over. If earnings disappoint, there could be some fallout in the markets, although we believe that any such adjustment would be modest, and, more importantly, provide another attractive entry point into the market for investors.

As our clients know, Midwest Capital Advisors focuses on long term investment results, not where the market is likely to go in the coming weeks. We continue to believe that, given current market levels and the recovery we believe we are into, we remain in one of the best long term investment environments that we have seen in many decades.

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

Sincerely,

*George P. Wanty, III*

*Jeffrey A. Gietzen*

*Henry G. Swain*