

ABL Money Management Update

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2nd Quarter 2010

We went into the second quarter with a more defensive approach as investors jumped on the “V” shaped economic recovery bandwagon. As valuations continued to rise through April, it was more difficult to adhere to the valuation disciplines learned from the late Sir John Templeton. After the global equity sell off in both May and June, we are glad we did. As opposed to three years ago when we warned about and stayed away from certain sectors and maintained a solid cash position, we plan on utilizing panic selling to accumulate high quality, income generating leaders. It is typical in deleveraging periods, and this is one of the biggest in history, to have above average volatility in both directions. The other common denominator in past periods of deleveraging is a much more anemic recovery than typical recoveries. That is a good fact to keep in mind in these rallying phases, as partial profit taking and controlling risk will be as critical in the second half of 2010, as it was during the first half. Investors should expect us to buy into weakness, and just because we begin buying does not mean we are at or near a bottom. We do feel, however, that over a one or two year period, the positions we are accumulating now will be considered a smart strategy.

The problems in a volatile market with a buy and hold strategy are too numerous to mention here. Suffice it to say that last quarter, we stated the supermarket chains we liked to start the year had all moved beyond our buy limits. As we enter the third quarter, many of the areas we avoided or took profits in earlier this year are once again getting back to our disciplined buying territory. When you look at a company like CH Energy with an approximate 5.5% annual yield, that is all investors received over the last 12 years, as the stock is at the exact price it traded back in 1998. However, a nimble investor who bought at times like these when the company traded in the mid-to-upper thirties and sold after the stock advanced to the mid-to-upper forties would have had ten occasions to lock-in solid profits. If investors were to take advantage of only every other

time the stock traded between those ranges, the total return would have been 18% annually versus the 5.5% total annual return had no profit taking (risk management) been implemented. Interest rates have gone lower than we expected with this recent flight to quality, but bond investors should be safe until closer to 2011, when the risk will be truly realized in long term bonds, for select U.S. stocks and real estate offer better risk adjusted returns here into weakness than bonds.

Going into 2010, Alan B. Lancz and Associates, Inc. expected volatility in both directions with little progress made in terms of performance for the typical buy and hold investor. After the impressive rally in global equities from the March 2009 lows, we felt it would be difficult to obtain high single digit returns for 2010-2011. Gains we expected for the entire year were already starting to be exceeded into April's rally as investors added risk at exactly the wrong time. The passive, buy and hold investor was once again destined to be disappointed, continuing the frustrations of the previous “lost decade.” Our 4th quarter update going into 2010 focused on **two primary disciplines** to outperform in what should be a more difficult environment for equities:

1. **Don't Jump on the Bandwagon** – Investors must realize it is important to take partial profits along the way as they ride the momentum into 2010. It is also important to gradually become more defensive with new purchases as you take profits in the high flyers that continue to perform so well. The wave in technology and commodities, for example, will end swiftly once investors see the effect of stimulus money drying up later into 2010.
2. **Buy Into Panics** - We have always focused on the power of profit taking as not only a risk management tool, but to also provide the necessary conviction to buy when there is panic in the streets. For example, we recommended getting back into financials in
























November 2008 after warning about them 18 months prior. One year ago, we highlighted Google & Apple after warning about them at much higher levels one year earlier. Both of these new purchase recommendations were considered bold at the time, but were much easier for us since we recommended profit taking in them before the major sell-off. Our more conservative nature comes out as prices rise and we plan to be much more selective with new purchases into 2010.

(12/24/09)

Had we not become more defensive and avoided the “herd” earlier this year, we would be less likely to

take advantage of the current weakness. This is the only way we know to continually manage risk and coordinate above average risk adjusted returns in the face of such a volatile and difficult investing environment. The other options are: 1) jump on the fixed income bandwagon, which encompasses high risk, low reward – the exact opposite of what we seek, or 2) hide in cash, which has paltry returns which will pale in comparison to buying high quality companies into panic selling the latter half of 2010. This approach worked in 2009, especially when done gradually into panic “emotional” selling, and we feel two years from now, it will outperform those “jumping onto the bandwagon” areas investors are currently emphasizing.

JUNE 30, 2010 GLOBAL INDICE PERFORMANCE

<u>STOCK MARKET INDEX</u>	<u>2nd QUARTER RETURN</u>	<u>1st HALF RETURN</u>
 S & P 500	-11.86%	-7.57%
 D.J.I.A	-9.97%	-6.27%
 NASDAQ	-11.19%	-6.51%
 Russell 2000	-10.19%	-2.54%
 China (CSI 300)	-23.39%	-28.32%
 Japan (NIKKEI 225)	-15.40%	-11.04%
 India (SENSEX)	+0.99%	+1.35%
 Germany (DAX)	-3.06%	+0.14%
 United Kingdom (FTSE 100)	-13.43%	-9.16%
 Russia (RTSI)	-14.83%	-7.29%
 France (CAC 40)	-13.36%	-12.54%
 Brazil (BOVESPA)	-13.41%	-11.16%
 Italy (FTSE MI)	-15.48%	-16.93%
 Mexico (IPC)	-6.34%	-3.00%
 Spain (IBEX 35)	-14.45%	-22.62%
 South Korea (KOSPI)	+0.32%	0.92%
 Canada (S&P/TSX 60)	-6.17%	-3.85%
 Indonesia (JCI)	+4.91%	+14.97%
 Turkey (XU 100)	-3.00%	+3.81%
 Australia (S&P/ASX 200)	-11.77%	-11.68%
 Taiwan (TWSE)	-7.46%	-10.49%
 Greece (ASE)	-30.63%	-34.69%
 Netherlands (AEX)	-7.96%	-5.52%