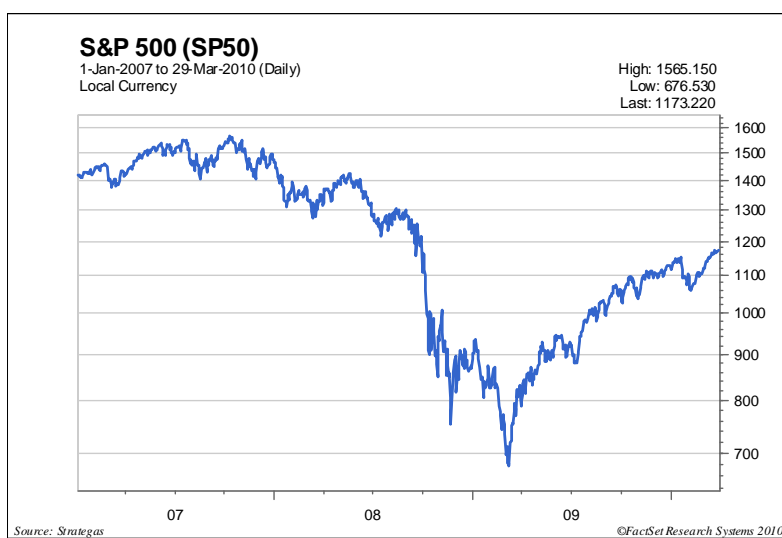


KPCM 1ST QUARTER 2010 REVIEW AND FORECAST

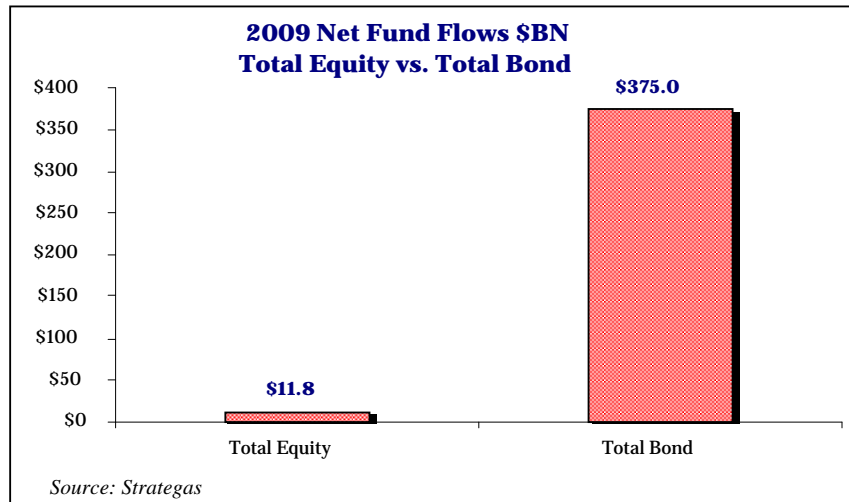
It may be hard to believe but a little over twelve months ago the global financial markets were in a state of full scale collapse. The fear of a worldwide economic depression pushed stock prices to extraordinarily low levels culminating in a near panic sell off in the first week of March 2009.



Today, it is apparent that the U.S. along with other global financial centers injected enough liquidity and economic stimulus to reestablish economic growth and financial stability.

As a result, the U.S. equity market rebounded sharply when it was apparent that “only” a severe recession (and not a depression) was the likely outcome. The initial rally continued as corporate profits showed a very strong recovery. Even more encouraging, revenues have begun to recover underscoring that the incremental gain in profits is not solely based on cost containment.

The question on many investors’ minds now is what happens next? If we look at how individual investors have behaved, it is clear that they remain “bearish” and continue to focus on bonds.

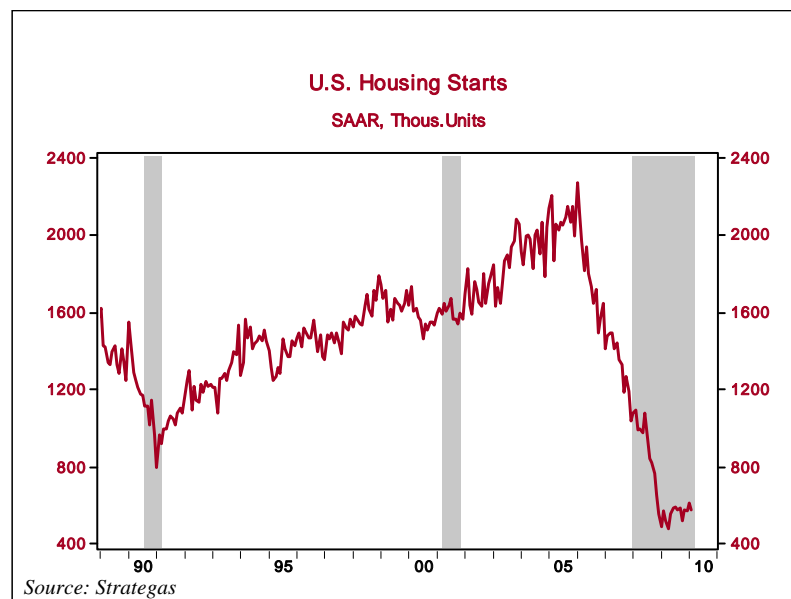


As the chart demonstrates, despite a major recovery in equity prices in 2009, individual investors have poured most of their money into bonds even though yields remain at extremely low levels. Clearly investor “fear” still remains high.

While the stock market has rebounded sharply off its lows, we believe that the market (despite periodic declines) is likely to continue its upward pattern over the next one to two years. A number of factors lead us to this conclusion. Some of the more apparent positive trends include:

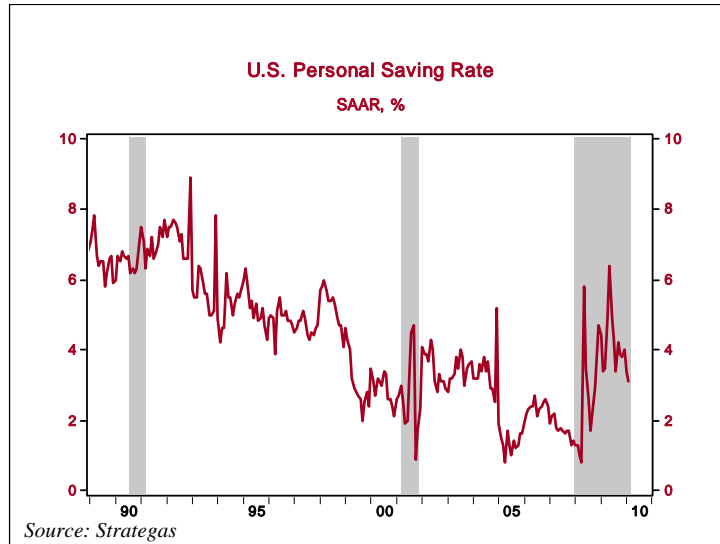
On a Macroeconomic Basis

- Unemployment appears to have peaked. We expect the unemployment rate to end the year around 9.5% from the current 9.7%.
- Employment has moved positive. As this trend continues, new job growth should exceed 200,000 a month by the end of the summer.
- As the following chart indicates, U.S. housing starts appear to have bottomed. In fact, it appears that most cities are reporting a flattening trend in home prices in the last few months.



This does not mean that foreclosures have peaked. However, should the economy continue to improve, buyers are likely to surface and reduce the foreclosure inventory.

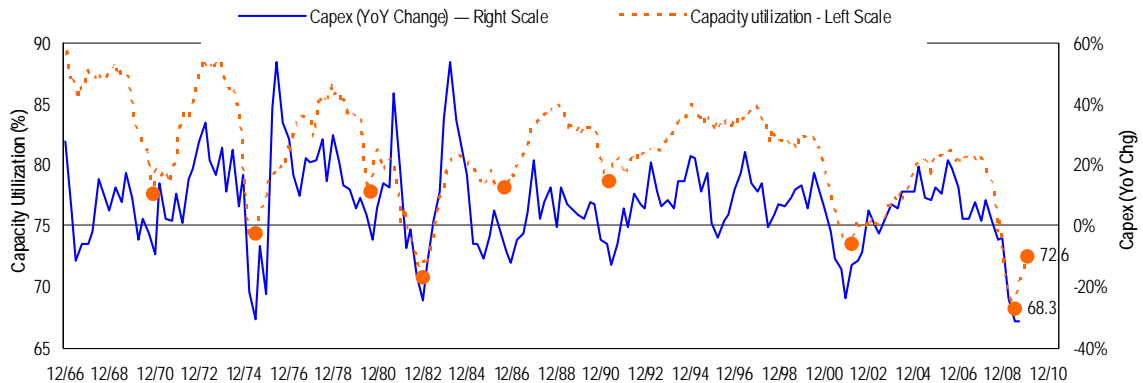
The U.S. personal savings rate has recovered to reasonable levels of approximately 3.5% to 4.0%. This suggests that the consumer's financial picture has improved. Importantly, we expect some of these savings to be ultimately spent or reinvested given the low interest rates on savings and checking accounts.



On a Corporate Basis:

- Corporate balance sheets are continuing to strengthen. Cash (and cash to debt) on corporate balance sheets is generally higher than in almost any other recession period. This reflects the aggressive cost reductions in the last two years. Additionally, productivity has been rising sharply as has return on equity and invested capital. It also sets in motion the ability to hire and increase capital expenditures as the global economy continues to rebound.
- Capital expenditures, which have been slashed by most companies in the last two years, appear to be bottoming and should begin to accelerate in 2010 and beyond.

Figure 1: Capacity Utilization vs. Capex (YoY Change)



As the above chart indicates, the current decline in capital expenditures exceeded the decline experienced in the 1973-74 recession. Thus, the stage is set for a significant rebound in capital spending in the next eighteen months.

- Many companies are at the point when revenue growth is likely to reemerge. Additionally, any incremental volume gains should enhance corporate profitability due to the productivity gains in the last two years.
- Most company inventories are still at low levels. We expect that inventory levels are likely to stay low until 2011, when it is clear that the U.S. is back on a solid growth path.
- Bank and related financial service company balance sheets are in much stronger shape than the last two years. High risk exposure has been dramatically reduced.

We continue to be concerned by various issues facing the U.S., including its debt obligations. We believe the U.S. government plans to raise taxes on most families (with high-net worth taking the brunt of the anticipated increase in taxes) in the near future. However, we point out that the top marginal tax rate in 1982 (our last severe recession) was 50% compared to 35% currently. The capital gains tax rate was 20% in 1982 as well, which is above our current 15%. Thus, even if top marginal tax rates move to 40% and dividends and long term capital gains tax moves to 20%, it is not likely to inhibit the expected growth in GDP.

Recent healthcare legislation appears to have limited near term impact to the economy and the market. The true economic impact of this legislation has been pushed out a few years. Thus, while it may result in some cost increases to the consumer near term, the real costs of this new healthcare initiative will be more evident past 2012.

Perhaps the most important variable to watch near term (aside from employment statistics) is interest rates. As the economy continues to recover, the Federal Reserve is expected to raise interest rates. The timing of this move is hotly debated throughout the investment community. The initial move upward in rates, when it does occur, is likely to cause the market to pause. It is important to put current interest rates into perspective. The Federal Reserve has pushed current short-term interest rates to a historic low given the severity of the recession. The Fed is likely to hold interest rates at current levels as long as possible in an effort to allow home prices to continue to stabilize. As a result, we expect the Fed to start raising interest rates as housing and employment begin to show recovery. Given this unique situation, an upward move in interest rates back to more historical levels is actually a positive sign that our economic recovery is well underway. Nevertheless, we expect that the initial stock market reaction may well be negative. We expect any moderate decline (10% or so) to be viewed as short term and an opportunity to add to equity exposure.

Finally, the financial difficulties now ongoing in Greece and potentially other European Union members may also have a short term negative impact on the market. However, the major EU members can ill afford to allow Greece to destabilize all of Europe. While they may be reluctant, we expect the EU to ultimately support a financial recovery plan for these countries.

Our equity selection process is rigorous since our client portfolios consist of a relatively limited number of companies. Moreover, we also remain focused on preservation of capital and to that end we are sensitive to equity valuations in general. While valuations have risen from the depressed levels of last year, we continue to find exceptional companies at reasonable valuations.

Recently, we added Newell Rubbermaid to our core portfolio. This company has gone through a massive restructuring over the last few years. Importantly, new management has also refocused its core product line and dramatically improved its balance sheet. This company has many dominant brands. It owns Papermate, Sharpie and Parker in writing instruments. Within family and home products, it has Graco and Aprica (baby care) and Levolor and Kirsch (window accessories). Lastly, it has the formidable Rubbermaid line of home goods. We expect a dramatic improvement in profit margins, cash flow and earnings growth in the next few years. The equity is currently selling at about 11x's depressed 2010 estimates. As the economy recovers, this investment should reflect the strong earnings potential in its core businesses.

In conclusion, we believe the trend overall suggests an economic recovery. The companies in our core portfolio all enjoy solid balance sheets, strong positioning in their respective markets and an ability to generate significant earnings gains in this environment. We again want to emphasize our focus on tax efficient growth in our client portfolios. This emphasis is likely to be even more important once tax rates begin to rise.

As always, please contact us if you wish to discuss any of our conclusions or the investments in your portfolio.

Jack L. Salzman
Managing Partner

Jeffrey P. Bates
Managing Director

Steven W. McGinty, CFA
Vice President

P.S. We have enclosed a reprint of a Barron's cover story which names the "Top 1,000 Advisors". All of us at Kings Point Capital were surprised and pleased to be named to this group. Moreover, out of the 1,000 advisors mentioned, only 92 represented independent investment advisors vs. teams that are part of large brokerage firms.