

## I. Market Environment

The Cambridge Financial Group monthly composite of indicators continues to suggest a **favorable** environment for equities. As such, a **full investment posture** is currently recommended with funds invested 100% in favorably ranked stocks for all equity accounts.

**Valuation** measures are negative. Due to continued write-offs and dividend cuts during the 3rd quarter, the P/E ratio and dividend yield on the S&P 500 remain in negative territory.

**Breadth** is graded as positive as of the end of September.

**Momentum** indicators remain positive even after the rally during the third quarter. Currently, all four indicators in this area are positively graded as of the end of September.

**Interest rate** relationships are positive as of the end of the third quarter. T-Bill rates were slightly lower throughout the third quarter of 2009, finishing September at 0.14%.

On the heels of the powerful advance experienced in the April – June 2009 period, the market continued to surprise many skeptics with yet another stellar showing. The current bull market born in early March continued to be met with investor pessimism despite posting the seventh consecutive month of gains. In the face of investor doom and gloom due to still healing wounds from the recent financial crisis, the third quarter ended as one of the most impressive quarters in years by logging the largest gain for the index since the fourth quarter of 1998. Nevertheless, investors continue to question whether the good times can last as the fate of the seven month old bull market remains uncertain. With memories of the sub-prime crisis and the near financial collapse still fresh, worry on Wall Street is in no short supply. The current recovery will need to maintain momentum in order for investor confidence to be restored allowing stocks to continue their upward path over the long term.

The spectacular rally in the middle two quarters of 2009 has been fueled predominately by lower-quality, higher beta, riskier stocks. Investors moved money into these riskier assets over the past two quarters causing many stocks which had experienced the greatest price declines during the economic crisis to post the greatest gains in the rally. Market speculation bolstered industries most beaten down by the economic downturn. Although disappointing, recent underperformance of Cambridge portfolios in the face of a strong market rally off the March 9th bottom is not surprising when viewed in the context of past

recoveries after severe market declines. Historically, Cambridge performance tends to lag the market over the short term once a bottom has been established and direction pivots to the upside. In the current environment, industries most severely impacted to the downside had extremely negative price momentum leading up to the rally. Adherence to our strict investment discipline pushed us away from these stocks, not towards them. Minimum exposure to these more speculative stocks has been a major contributor to the recent lag in relative performance. The good news is that this phenomenon has typically been short lived in the past when coming off market bottoms.

As the rally evolves and sustainable trends emerge, our investment discipline has historically proven successful in identifying these trends and participating as stocks continue their long overdue ascent. Although the road may be bumpy, we are confident that patience and adherence to our strict, time tested investment discipline will ultimately yield positive results and relative outperformance once again.

## II. Performance

<u>Index</u>	<u>Return (%)</u>		
	<u>Q3</u>	<u>2009</u>	<u>10-Yr</u>
<b>CFG Core Portfolio</b>	<b>11.8</b>	<b>11.1</b>	<b>2.7</b>
<b>CFG Aggressive Portfolio</b>	<b>13.1</b>	<b>18.2</b>	<b>0.9</b>
S&P 500	15.6	19.2	-0.2

*\* The respective performances for the CFG Core Portfolio & CFG Aggressive Portfolio are composite figures for all accounts that are invested according to each specific equity strategy. Figures are presented on a net basis - after transaction costs and management fees. 10-Year returns are for the period ending 9/30/09.*

## III. Sub-Sector Portfolios

The names listed below are recommended holdings as of October, 2009.

<u>S&amp;P</u>	<u>CFG</u>	<u>CFG</u>
<u>Momentum</u>	<u>Momentum</u>	<u>Value</u>
Amgen	Apple Inc. *	Air Products
Amazon.com	Colgate-Palmolive	Boeing
AutoNation	Dow Chemical *	Bemis
Apollo Group	EMC Corp	Cardinal Health
BB & T Corp	Ford Motor Co *	IBM
Direct TV	Home Depot	Pitney Bowes
McAfee	Hewlett Packard	Sara Lee
Charles Schwab	Microsoft	Sysco
Southwestern Energy	Oracle	Walgreen
Western Digital	Qualcomm	Wal-Mart

\* Indicates addition as of October, 2009. Momentum portfolios are adjusted quarterly. Value portfolio is adjusted annually.

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