

*Marble Harbor Investment Counsel, LLC  
Excerpt from  
Second Quarter, 2009 Letter*

Dear Client:

July 2009

From the market's low in early March, it has rallied nearly 40%. Slightly more than a third of that gain has come during this past quarter, making it one of the best quarters for the stock market in many years. The conservative positioning of your investments served you well during the market's downturn, not surprisingly. However, while you have participated in this nice, recent surge, the rally has focused predominately on the more speculative corners of the market.

How would we characterize the last nine months in the market? It is comparable to the experience of being in a car wreck. Upon impact, there is the fear of horrible injury, or worse. These fears parallel the sentiments that followed in the wake of the Lehman Brothers bankruptcy. Investors and business people were concerned that the whole system was in jeopardy, and so, stocks and bonds traded as if a financial meltdown was a real possibility.

After impact, the driver realizes that he is not going to die, that his passenger is safe. This realization often brings an adrenaline-fueled, euphoric rush. In the market, this started in the second week of March. But then what happens? As reality sets in one realizes that his car is wrecked and he is injured and will need time to heal. Similarly, investors are now likely to realize that while the catastrophic danger has passed, the global economy is still weak and leveraged.

So, where do we go from here? In past letters, we have discussed the numerous shifts in the economic environment: A higher savings rate, a decline in the amount of risk-taking by investors and companies (both emotionally and legislatively driven), and huge borrowing needs for the government stimulus that are dampening the shock of the current economic slowdown. Along with the decrease in leverage in the financial system, all of these factors lead us to one over-arching conclusion: We expect a slower rate of economic growth for some time to come, even during the recovery. This also leads us to expect a more modest rate of return for financial assets – both stocks and bonds.

For these reasons, we remain conservative in terms of the types of companies we will own for you and toward the valuations we will pay for them.

We hope you are well. As always, please don't hesitate to call with questions or comments.

*Marble Harbor Investment Counsel, LLC*

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