

J. L. BAINBRIDGE
& C O M P A N Y, I N C.

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Dear Client:

November was quite a month with the market in dramatic decline until the last four days when the market rallied after the Federal Reserve signaled their resolve to keep the economy growing with additional interest rate cuts if required. We know how difficult it is holding investments when the market declines and the media is hysterically predicting the "end of the world is near." However, as we have stressed over and over during market declines, selling when your stocks are down only accomplishes the conversion of short-term losses into the permanent loss of your hard earned dollars. The fact is, stocks of quality companies with strong franchises and exceptional financials do decline when emotional selling overwhelms the market, but they also lead the market's recovery.

Often their recovery is facilitated by aggressive share repurchases. A good example is American Express (AXP) which was authorized to repurchase 200 million shares by their board of directors last year. Last year 75 million shares were repurchased and we expect at least the same this year. In order to appreciate the magnitude of this program, 200 million shares are equal to 16% of the 1.2 billion shares outstanding. Tuesday morning, November 27 AXP's shares sank to \$53.53 and we assume the company was buying as many of its shares as possible. Just three days later AXP's shares closed at \$58.98, an increase of 10%. The vast majority of the companies you own are also repurchasing shares and historically, shares are repurchased most aggressively when the market declines which translates into more shares purchased for the benefit of shareholders.

In June of this year, Nuveen Investments reported they had agreed to sell the company at \$65 per share with the transaction expected to close toward the end of the year and the stock jumped to \$62. We could have sold at that point, but decided to hold until the close of the transaction. Our strategy was to use Nuveen's stock as a hedge in the event the market declined in the second half of the year. The sale closed last month which was fortunate as it coincided with the market decline which presented a good opportunity to reinvest the proceeds. We are using the proceeds to buy additional shares of AT&T, Amdocs, Fiserv, Franklin Resources, Korn/Ferry and Lincoln Electric. In addition, we are using a majority of the proceeds to add Boeing and Disney to our portfolio. Both of these companies operate around the globe, and therefore increase our exposure to high growth international markets which is a major element of our investment strategy.

As indicated earlier, holding investments during turbulent times is difficult but absolutely essential in order to achieve investment success. Every member of our firm have their retirement and personal assets invested in the same companies as our clients and hold these investments through "thick and thin." Since 1981 there have been many dramatic unpredictable declines. Focusing on what are the best quality investments to own and ignoring these market declines is the basis of our success.

John Leeming, CFP®, Vice President, Portfolio Manager