J. L. BAINBRIDGE
& COMPANY, INC.

April 4, 2010

Dear Client:

For the first quarter of 2010 our equity portfolio achieved a return of 8.4% and our long-term return has regained double digits with our compounded return at 10.2% over the past sixteen years and three months. The question today is can the stock market continue to advance? This is the same question we addressed in last year's April 4, 2009 letter which included the following advice:

"Huge cash reserves, record low interest rates, low stock valuations and high dividends are the recipe for a strong stock market recovery. Since the market reached its low on March 9, 2009, it has appreciated twenty-one percent over the past four weeks. Hence the big question is: What can investors expect now? Certainly based on the past, an increase of this magnitude in such a short time is usually followed by either a period of several weeks of consolidation or a correction of approximately one-half of the advance. However in 1982 after several years of market decline, the market rallied for almost a year without a significant decline or correction. For some time we have compared the current environment with 1982 when stock evaluations were also very low and the economy was in a deep recession. Back then as is now the case, pessimism about the sustainability of the stock market's rally was prevalent because the economic news continued to be bleak. For example in 1982 jobs continued to be lost at a high rate and the unemployment rate did not peak until it reached 10.8% in the spring of 1983, but the advance of the stock market continued unabated. This does not mean we can predict the short-term direction of the market, but it illustrates the point the stock market is much more likely to continue to recover over the next year than fall back significantly."

Although the market has appreciated strongly over the past year, the investment environment has not changed materially. Pessimism is widespread which is very positive because many investors remain on the sidelines with over three trillion dollars in money market funds earning a return of well under 1%. In addition stock prices remain reasonable at about fifteen times this year's expected earnings for the S&P 500. And lastly inflation is nonexistent and interest rates are low and the Federal Reserve stated recently that rates will remain at today's level for at least several more months.

However the most powerful driver of higher stock prices is earnings growth and here the news is good. As repeated in several letters over the past two years, companies selected for investment have reduced costs aggressively and have in place a cost structure that will remain well below historical levels as business improves. Hence even modest growth in revenue will produce much higher earnings growth. Couple this with strong financial positions which support aggressive stock repurchase programs that accelerate earnings per share growth. Consequently we are looking forward to the release of first quarter earnings this month that will likely again exceed analysts' expectations. In summary, in our opinion, this continues to be a time for optimism.

Jerry L. Bainbridge, President