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ECRI's WLI points to a much improved economic environment

2009 2nd Quarter Review

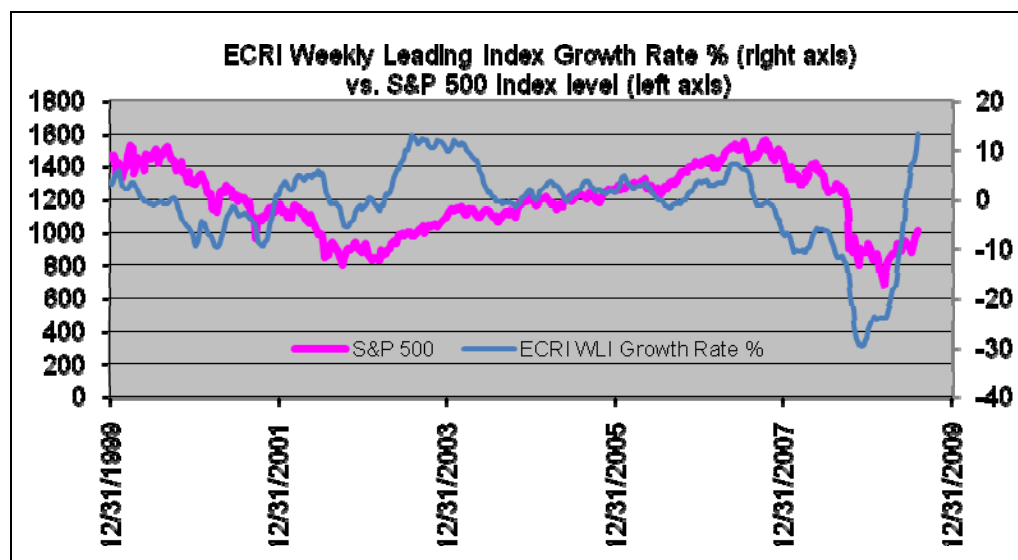
The second quarter produced broad market returns for investors as the expectation of an economic recovery began to get priced into stocks.

The MSAM Growth composite outperformed the market during the second quarter. In fact, we were contacted by Morningstar/Barron's, and an industry publication, Pensions and Investments, for our recent outperformance. While it is flattering to receive the attention in the press, most important to us is that we continue to execute the research and investment process in a manner that can produce results, quarter after quarter for you on an ongoing basis. We've made outperformer lists before, and hope to do so again in the future. Updated performance numbers are available on the MSAM website:

<http://www.msam.net/products.htm>.

Current Observations

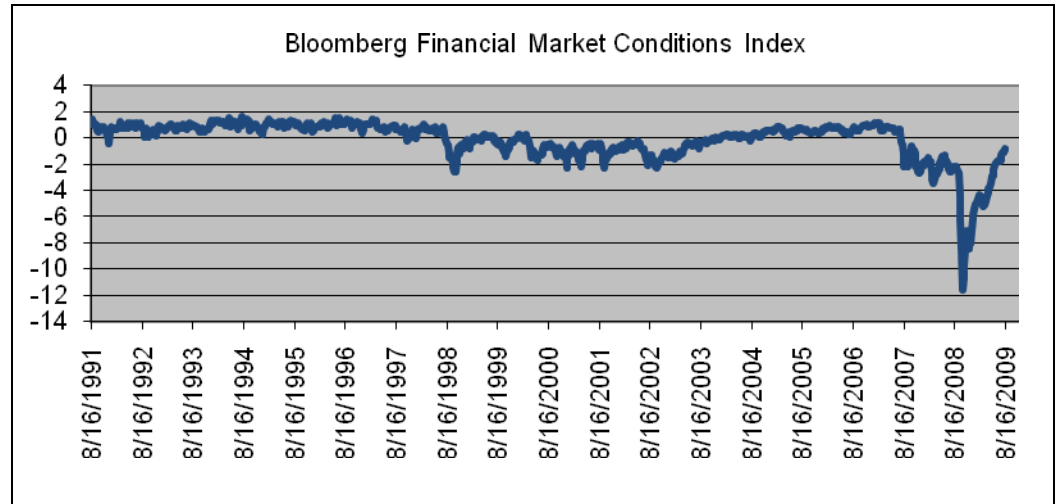
Leading economic indices like ECRI's Weekly Leading Index (WLI) have made a pervasive move to the upside. The WLI, which is currently at a multi year, multi business cycle high, is pointing convincingly toward an improved economy.



Source: Bloomberg, ECRI

Although expectations of economic recovery have improved, we continue to see the remnants of financial institution problems. Some banks have been unable to restructure and survive. The biggest 2009 failure thus far, Colonial Bank in Alabama, was taken over by BB&T last week, in an FDIC brokered transaction. But banks facing a terminal condition are a very slim minority, as broad financial market conditions have improved and stronger financial institutions, such as Goldman Sachs, have begun to repay the government stimulus they were provided.

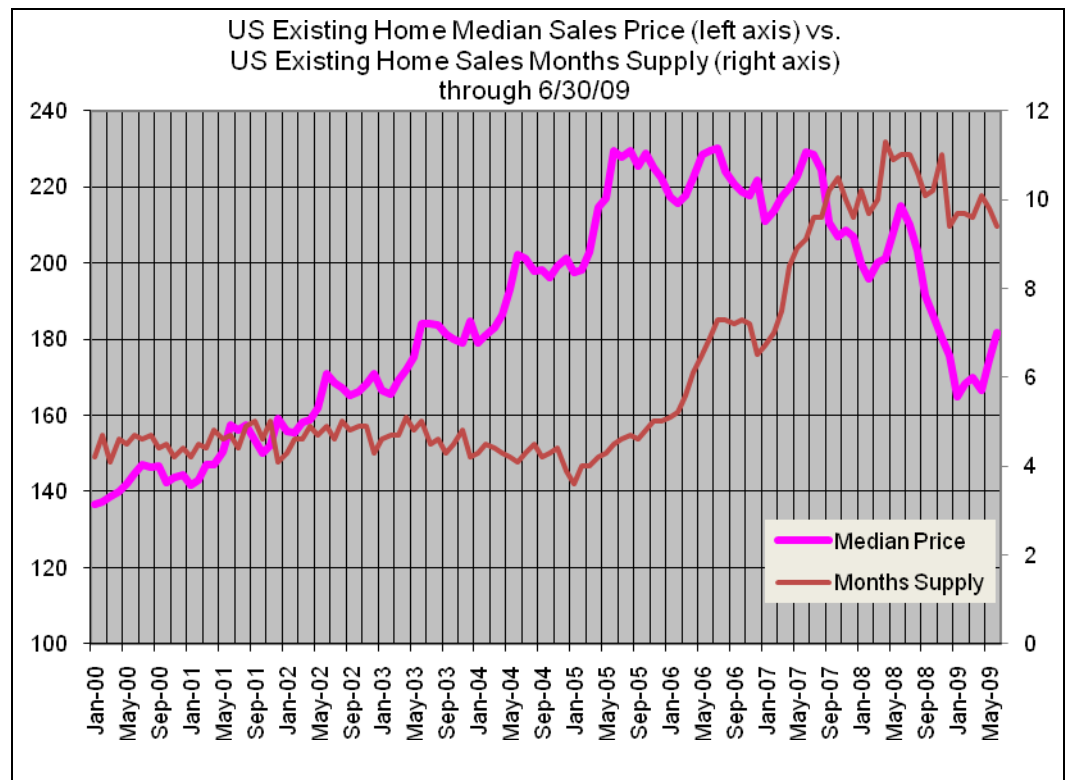
Broad financial market conditions continue to improve as troubled banks make up a very small minority



Source: Bloomberg

Recently, the real estate market has shown signs of bottoming and a slight improvement. Supply of homes for sale continues its trend downward and median home pricing has stabilized and even improved a bit.

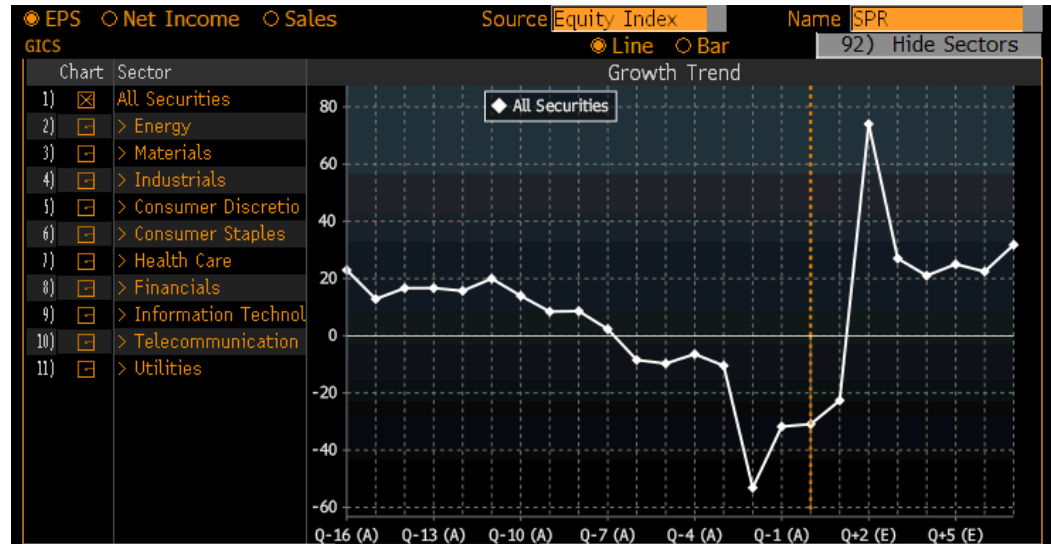
Signs of a stabilizing real estate market continue



Source: Bloomberg, National Association of Realtors

Across the market in second quarter earnings reports, a large percentage of companies beat their reported analyst earnings estimates. The ratio of companies in the S&P 1500 Supercomposite reporting a positive surprise vs. negative surprise was better than 3 to 1. A current view of earnings estimates across the S&P 1500 paints a picture of improved earnings. Looking toward the future, the growth trend of each quarter vs. 12 months prior is quite pronounced.

Analyst earnings estimates reflect continued improvement in expectations of company earnings performance



Source: Bloomberg, Standard & Poors 1500 Supercomposite

2009 3rd Quarter Preview

With broad economic conditions continuing to improve from recessionary levels, this is likely the best time in the business cycle to be a stock investor. As expectations point toward more improvement, the task is to continue to pick companies with a compelling business model. Companies at a price which has yet to reflect improved company conditions, due to both company strategic decisions and a more normal economic environment.

For example, in the information technology area, recent research has revealed that: broadband adoption continues to grow worldwide at 15%+, mobile phone broadband usage is growing very fast as evidenced by its 100% growth rate in Sweden year over year, and broadband providers have needed to add capacity to deliver 30% to 50% more bandwidth to users in the past year. With trends like these intact, we are encouraged to continue to identify opportunities that are further supported by an improving economy.

We look forward to continuing our work as we seek to produce a positive investment experience for all of our clients in the 3rd quarter of 2009 and beyond.

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