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JOLLIFFE CAPITAL, INC.

Registered Investment Advisor

QUARTERLY MARKET COMMENTARY

For the Cycle Quarter Ended July 31, 2009

Eric Barden, CFA
Chief Investment Strategist

"In the short run, the market is a voting machine,
but in the long run it is a weighing machine."

Benjamin Graham, The Intelligent Investor

We're past the halfway point for the year. I think it's safe to say that 2009 is going better than most dared to hope. Through July, the S&P 500 is up more than 10%. But, after the beating investors took last year it is understandable why most are unlikely to take much satisfaction from this performance. Commentators note the continued increase in unemployment, the staggering federal deficit, and the ongoing increase in foreclosures.

Pessimism abounds. The honeymoon for President Obama is ending, and many of our other leaders have revealed their feet of clay. Health care and environmental projects will impose some cost to the economy. Observers are wrestling with the adequacy of the economic medicine. There is no consensus as to whether the government stimulus packages are inadequate, or excessive. The only thing people seem to agree on is that it won't work. Meanwhile, unemployment continues its relentless march to 10%.

Yet, it seems clearer everyday that the intensity of the economic crisis is abating. Many risk premiums that were at all time highs last fall have retreated to pre-Lehman Brothers bankruptcy levels. Equities are one of the few markets that don't yet reflect this stabilization. If confidence in stocks recovers to pre-Lehman levels, we could see 1,100 on the S&P 500 by year-end. The S&P 500 closed at 879 on July 8th. A price target of 1,100 for the S&P 500 implies an expected return of greater than 25% from July 8th through the end of the year.

For the three months ending July 31st, most of the growth accounts under the management of Barden Capital performed comparably to the S&P 500, which was up roughly 14%. Balanced accounts actually outperformed growth by a modest amount as the fixed income markets have recovered more fully than U.S. stocks. Markets seem to reflect that we are not about to see the end of capitalism, but, we are still nervous about the magnitude of the impending recovery.

For the first few months following the Lehman collapse, the economy deteriorated faster than expected. In the spring of 2009, the economy recovered much faster than anticipated. Today, economic results are generally in line with market expectations. Some areas show surprising strength (industrial production, housing starts) and some areas show surprising weakness (employment, inflation).

The economy should shed fewer jobs over the next 12 months. Assuming we don't see another collapse of an industry as substantial as the automakers, and that housing is bumping along the bottom, employment numbers will improve. Unemployment figures are very slow in reflecting the economic recovery. Only after the economy utilizes the existing excess capacity, will employment substantially increase. The economy and earnings will recover before employment does. Waiting for the recovery in employment would cause investors to miss the recovery in earnings.

Rampant pessimism increases the possibility that things will work out better than expected. The U.S. and other developed markets are currently selling at an historic discount to the emerging markets. Many feel that our problems are insurmountable, but as profits recover the annual federal deficit should rapidly decrease. If we can get a handle on health care costs, future deficit expectations should greatly improve.

As investors, we're nervously optimistic. Our multi-strategy approach continues to serve us well in this uncertain environment. We're balanced between companies that are leveraged to an economic recovery and companies that have shown an ability to execute regardless of the economic environment. We anticipate a positive resolution to many of our difficulties but we have no idea how long it will take to see this reflected in stock prices. We are comforted by the fact that no matter how extreme the pessimism, stock prices eventually reflect their underlying economic value.

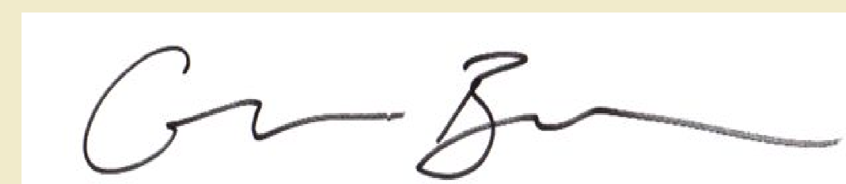
The most common objection to the claim that this is a new bull market is that the market can't go up with government spending out of control. I recently put that argument to the test. I looked at the past quarters when the deficits relative to the overall economy were at their worst. In the fall of 1992, the deficit was 5% of GDP; in the winter of 1982 the deficit was 5.4% of GDP. Today, it's about 6% of GDP.

If you invested during the fall of 1992, you'd have more than tripled your investment. The total return on the S&P 500 has been 225% since the fall of 1992. If you had bought when the deficit was even worse, in the winter of 1982, you would have enjoyed an increase of 1,421%, a more than 15x increase on your investment.

I still kid my father who purchased 5 oz of gold at more than $800 an ounce in 1982. That gold today (which he still owns) is worth about $950 an oz, for a total return of about 20% or less than 1% a year. Then as now, everyone was telling investors to buy gold. If Dad would have instead used that $4,000 to buy stocks that investment would now be worth more than $60,000 instead of less than $5,000.

Most investors assume that investing when deficits are high is dangerous. They feel more comfortable investing when the government is running a surplus. Unfortunately, it's not quite that easy. The biggest surplus we've enjoyed since the 1960's was during the spring of 2000. The NASDAQ was at 5,000. I don't think anyone needs to be reminded how that worked out.

Deficits peak at the bottom of recessions and trough at the top of expansions. To sell stocks because deficits are peaking has historically meant selling stocks very near the bottom of bear markets.



Eric Barden, CFA
Chief Investment Strategist

Mr. Barden serves as the Chief Investment Strategist for Jolliffe Capital, Inc. Eric has managed money since 1995, has been featured on CNBC and has been featured several times on Bloomberg television and radio. Mr. Barden holds a BSBA in Economics and Finance from the University of Texas.