



GERALD L. RAY
 & ASSOCIATES, LTD.
 Investment Advisors

THE RAY REPORT

October 25, 2010

The Age of Low Expectations

Maybe it's the 9.5% unemployment that has persisted for over a year. Maybe it's the fact that a war against a small country with no resources is approaching a decade. Maybe people feel trapped in a home that is worth less than what they paid for it, or maybe individuals are afraid to invest in, or with formerly great institutions knowing that their formerly worthy competitors like Bear Stearns or Lehman Brothers disappeared literally overnight. Or maybe, the fact that a trillion dollars can disappear in a flash due to a trading error makes it seem like a big unwinnable game. Whatever the reason, America's love affair with the equity markets can be declared over. A decade without any meaningful returns can do that. It is not just equities that are now ignored by the public. People are willing to accept a 2.5% annual return on a 10 year Treasury and less than 4% annually to tie up their money for 30 years. If, as an investor, you are not into long range planning, you can currently earn 1.1% on a 5 year Treasury bond or you can buy gold, which of course generates no income at all.

It seems counter intuitive to some extent that most American investors would be willing to effectively wave the white flag and say I have had enough, especially when returns on "safe investments" like US Treasuries approach 60 year lows. Like Mark Twain said in a quote, also echoed by humorist Will Rogers and economist John Maynard Keynes, "I am more concerned with the return of my money than the return on my money." This mantra seems to echo the sentiment of investors everywhere.

Despite this mindset, stocks rebounded 11.3% this quarter and including one of the best September returns on record. The S&P500 has returned 3.89% year to date, which follows a 26.50% return in 2009 for the S&P500. With S&P500 earnings expected to be around \$80 in 2010 and a conservative \$90 in 2011, the market is trading at a historically low 13x forward earnings. Additionally, the dividend yield on the

S&P500 is approximately 1.8%, which means if the S&P500 showed no appreciation at all over the next 5 years, it would outperform a 5 year Treasury bond.

Welcome to the Era of Low Expectations. It is at this point, where I can talk about why stocks makes sense, why they are historically cheap compared to bonds and why dividend paying stocks offer growth along with yields higher than bonds.

The question is not whether any of that is true, but rather the issue becomes has America's mindset been so altered that we are willing as a society to accept no growth in our personal assets? Has safety permanently trumped ambition, growth and risk-taking?

In a society where 9.5% unemployment is currently the norm, maybe the answer is yes, but given that voters in mid-term elections should at least affect a change in the House of Representatives, to suggest most Americans are willing to accept such low expectations over a long period of time seems unlikely.

People are tired. They are wary. They are frustrated. They feel betrayed by business and by government and they have retrenched

Market Performance For The September 2010 Quarterly Period

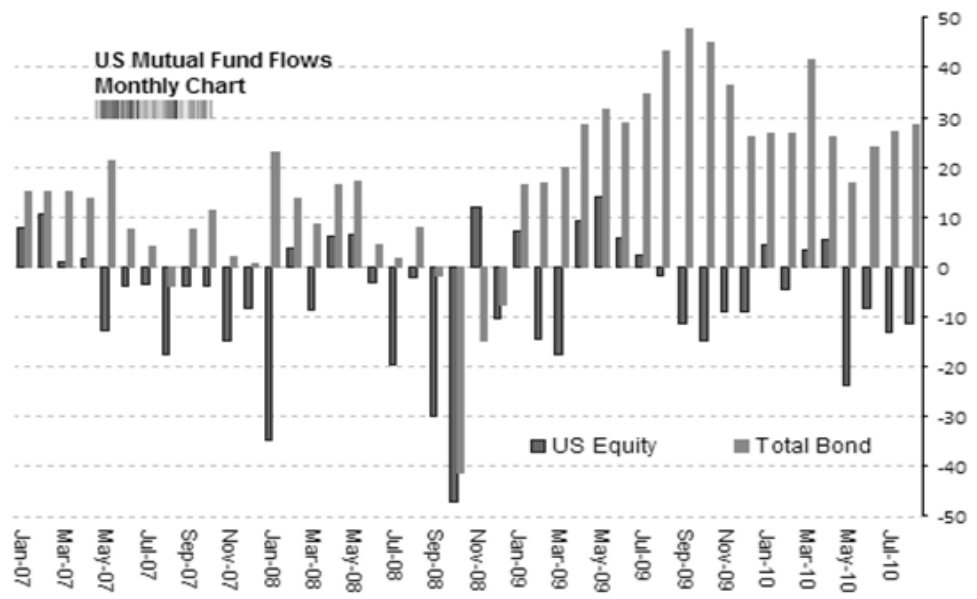
<i>Dow Jones Industrials</i>	11.18%
<i>Standard & Poor's 500</i>	11.30%
<i>Russell 1000 Growth</i>	12.56%

and hunkered down for brighter days. Trust has to be rebuilt by the markets and it will take time. Yet, when looking at the alternatives, we are convinced that it is better to invest in the opportunities such caution has afforded, rather than settle for an outlook that 1% annually will be an acceptable return over the next five years. Unfortunately, life is not really like youth league soccer. We do not get trophies just for showing up. As a society, we need to expect more in life and in our investments.

Sincerely,

President

INVESTORS FLOCK TO BONDS AWAY FROM STOCKS



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Proxies are voted now electronically via ADP's ProxyEdge Lite internet based system by a portfolio manager. This system allows voting and recording proxies online and meets SEC requirements. It provides online notification and summary reporting. Accounts are added and deleted to the system by faxing account registration forms. ProxyEdge allows voting as a group or on an individual basis.

A portfolio manager's assistant or other designated employee ensures that all additions and deletions from the proxy voting list are current. All paper ballots that may be received before a portfolio is added to the system are voted by a portfolio manager consistent with its electronic counterparts.

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In order to more completely serve our clients needs regarding corporate representation issues, any clients that are continuing to personally receive proxy materials in the mail, or via email, are asked to provide to us "one" of the signed ballots for each account that you are receiving ballots. With this information, we will be able to enroll you into our online proxy voting system and electronically vote your shares in future corporate elections.

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