Medley & Brown, LLC Composite Performance* Average Annual Time-Weighted Returns (%) Period Ending August 31, 2009	Balanced Accounts	Growth Accounts
5 Years	3.07 %	2.48 %
10 Years	4.35 %	3.76 %
15 Years	6.60 %	6.69 %

**All client portfolios invested primarily in mutual funds with a combined allocation of less than 18% in cash and bonds are included in the Growth Composite. All client portfolios invested primarily in mutual funds with a combined allocation of 18% or more in cash and bonds are included in the Balanced Composite. Performance is net of management fees and reflects the average time-weighted return for all portfolios included in our Growth or Balanced Composite. Performance data includes reinvestment of dividends and capital gains distributions and changes in principal value. The larger a portfolio is in relation to others in the composite, the more weight its performance will have in the composite's time-weighted return. For several reasons including, but not limited to, asset allocation and investment choices, the performance of individual portfolios in the composite may vary significantly with some higher and some lower than the average. An analysis of variance is available upon request. Past performance may not be indicative of future results. Investment returns and values of client accounts fluctuate such that at any time an account's value may be worth more or less than the total payments into the account. Because accounts contain both US and international securities, results will depend on both management performance and underlying market and economic conditions throughout the world.*

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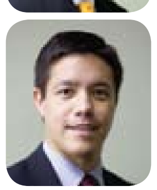

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Investment News

Medley & Brown, LLC

F A L L 2 0 0 9

Firm Focus: Ruane, Cunniff & Goldfarb

by Julius Ridgway

Ruane, Cunniff & Goldfarb, managers of the fabled Sequoia Fund, was founded in 1969 by Bill Ruane. Ruane had met Warren Buffett in 1951 when they were students together in Benjamin Graham's class at Columbia University. (You may recall that Graham was Buffett's mentor, the author of The Intelligent Investor, and widely considered to be the "father of value investing".) When Buffett closed down his investment partnership in 1969, he recommended Ruane to his investors, and in 1970 the Sequoia Fund was launched, largely to accommodate former Buffett Partnership investors.

The Sequoia Fund went on to establish a stellar investment record and closed to new investors in 1982. (This is something we always like to see, as it demonstrates that the firm places a higher priority on serving existing shareholders than growing assets.) In spite of the fact that we couldn't purchase shares for clients, we were able to purchase shares for our firm in the illiquid secondary market, and thus we have followed the firm and the fund for well over a decade. We make a yearly trip to New York City for the Sequoia Fund annual meeting, which for many years was held at the New York Athletic Club and recently moved to the St. Regis Hotel, both within a stone's throw of Central Park. We consider it one of the best sources of investment wisdom and insight on our annual travel calendar. Over the years, as the fund has evolved, and the torch has passed from the founders (Bill Ruane recently passed away) to the 2nd and 3rd generations of portfolio managers and analysts, we have become acquainted with Bob Goldfarb, lead manager of the fund and CEO of the firm, as well as several others at the firm.

> **"We consider it one of the best sources of investment wisdom and insight on our annual travel calendar."**

On one recent trip to New York, Susan Wiggins and I had the opportunity to visit the firm's Fifth Avenue headquarters (next to the Plaza Hotel and overlooking Central Park) for a private meeting with Jonathan Brandt, who covers Berkshire Hathaway for the fund. (I should point out that in spite of the high-rent address, the offices were decidedly low-key and utilitarian.) In addition to giving us his insights on Berkshire and other fund holdings, he gave us invaluable insight into the mind of the man he referred to as their competitive advantage – Bob Goldfarb. Bob is a brilliant investor who is singularly focused on his job, which also happens to be his passion. According to Jon, Bob lives three blocks from the office so that he can walk to work most days, including weekends, and never takes a vacation. As Yale's chief investment officer David Swensen has said, great investors tend to have a screw loose (referring to their ability to put their investors' interests ahead of their own), and Bob Goldfarb seems to fit the bill!

Bob Goldfarb, President of the Sequoia Fund, May, 15, 2009

Our ongoing due diligence served us well when the fund, after 25 years, decided to reopen in 2008, giving us an unexpected opportunity to buy this legendary fund for clients where appropriate. (Given a large unrealized gain in the fund, a large position in Berkshire Hathaway, and a transaction fee to purchase, it is not appropriate for many client accounts.) But even given the history of the fund, we would not have considered it

The articles in this newsletter are not intended as nor should be considered as recommendations to purchase or sell securities of any of the companies or mutual funds named. The companies and/or mutual funds identified were selected for illustrative purposes only. Keep in mind that mutual funds' investments are subject to change at any time. Similarly, the funds or other securities used by Medley & Brown, LLC, in its clients' portfolios are subject to change without notice.

for purchase without a thorough understanding of the firm, the people involved, what they own and why they own it, just like any other fund we evaluate. The firm's investment style is heavily tilted towards the high-quality (as opposed to "deep value") end of the value investing spectrum, as they are focused on finding superior businesses with attractive long-term economics and what they call a "long runway" for future growth. This gives us extreme confidence that in periods of declining prices, the underlying investments are financially sound and their prices are only temporarily depressed, rather than permanently impaired.

We are privileged to be able to partner with this fabled firm and hope to expand our use of it for clients in the future.

Why Own Stocks?

by Kevin Anthony

The dreadful performance by common stock investments in 2008 – and the last ten years for that matter – has many investors asking themselves that very question.

Up until the last six months, owning shares of corporations has been very unrewarding. The S&P 500® Index posted a decline of 37% in 2008, and just as astounding, shares in America's largest public companies returned an average of *negative 1.4%* per year from 1999-2008.[1] So then, are investors to conclude that stocks are dead? We think not.

It is our view that what happened in 2008 is more the exception than the norm. It was only the third time in the last 184 calendar years where stocks lost more than 30%.[2] That puts it in the *worst 2%* of years during that period.

> **"Fund management cannot make sound investment decisions if it assumes that draconian general market declines are just around the corner."**
> *– Marty Whitman*

Moreover, 2008 ended the first negative ten-year period for large U.S. stocks *since 1930-1939*.[3] Those kinds of results look more like outliers than typical outcomes.

Venerable mutual fund manager **Marty Whitman** concurs, recently writing, "2008 was marked by the universality of Catastrophic Markets. A Catastrophic Market is one where prices decline dramatically for virtually all asset classes without fear or favor… we treat Catastrophic Markets as non-recurring events…Fund management can't predict when Catastrophic Markets will recur; and we doubt that anyone else can either. Fund management cannot make sound investment decisions if it assumes that draconian general market declines are just around the corner."[4]

So, what are we to expect from stocks? We think history is helpful with that question. Consider some research.

At Medley & Brown, we have long been influenced by the work of **Ibbotson Associates**, a well-regarded investment research firm in Chicago. Their studies show that during the 83 years from 1926-2008 (yes, 2008's grim results are included), large company stocks (think Wal-Mart, Johnson & Johnson, etc.) returned an average of 9.6% per year while small company stocks (think Cal-Maine Foods, Trustmark, etc.) returned 11.7%. In comparison, bonds earned considerably less: long-term corporates, 5.9%; long-term governments, 5.7%; and, intermediate-term governments, 5.4%.[5]

Another compelling study is **Thornburg Investment Management's** recently completed analysis of long-term returns after the negative effects of inflation, taxes and fees. Their research revealed the following annualized returns over the last 30 years ending 12/31/08: *after inflation, taxes and fees*, U.S. small company stocks averaged 4.75%; U.S. large company stocks, 4.51%; international stocks, 3.37%; municipal bonds, 2.45%; long-term government bonds, 1.95%; intermediate government bonds, 0.76%; corporate bonds, 0.21%; real estate, 0.15%; Treasury Bills, -1.24%; and, commodities, -4.02%.[6]

Finally, let's not forget ***BusinessWeek's*** infamous August 13, 1979 cover story "The Death of Equities". In a period when the stock market had suffered huge declines and the health of the U.S. economy was in serious doubt (much like today), it was easy to question the merit of owning stocks. However, over the ensuing 30 years, the Dow Jones Industrial Average index appreciated from 875 to 9400, an average return of 8.2% per year *not including dividends*.

With portfolios below their late 2007 values and the economy continuing to stagger along, it's not easy for most investors to embrace stocks. Nonetheless, common stocks have posted positive results in most years, and even with the periodic corrections and bear markets (which certainly will recur), they have provided the highest long-term returns among investment alternatives. We think that will continue. So, in pursuing long-term financial goals, it seems prudent that investors would direct a suitable portion of their portfolios toward stocks (or stock mutual funds), accepting the possibility of short-term declines in return for higher potential gains.

Past performance is not a guarantee of future results. Investment markets can be volatile, and investors may lose money. Different asset classes are subject to different risks and rewards. The S&P 500® Index is a market capitalization-weighted index of 500 widely held large company stocks in the US. The Dow Jones Industrial Average is a price-weighted index of 30 widely held large company stocks in the US. The performance of an index is not indicative of any particular investment. Unless otherwise noted, index returns reflect the reinvestment of dividends and capital gains but do not reflect fees, commissions or other expenses. An investment cannot be made directly in an index. There is no guarantee that the opinions expressed in this newsletter will prove to be correct. Actual results may differ materially from those we anticipate.

1 Ibbotson®SBBI®, 2009 Classic Yearbook, p. 243.
2 Value Square Asset Management, Yale University
3 Ibbotson®SBBI®, 2009 Classic Yearbook, p. 238-243.

4 Third Avenue Funds Third Quarter Commentary, July 31, 2009, p. 2.
5 Ibbotson®SBBI®, 2009 Classic Yearbook, p. 32.
6 Thornburg Investment Management, "A Study of Real Real Returns", June 2009, p. 3.

What Others Are Saying…..

"Neither fear nor exuberance are good investment guides. A Gallup Poll asked: 'Do you think that now is a good time to invest in the financial markets?' February 2000 was a time of exuberance, and 78% of investors agreed that 'now is a good time to invest.' It turned out to be a bad time to invest. March 2003 was a time of fear, and only 41% agreed that 'now is a good time to invest.' It turned out to be a good time to invest. I would guess that few investors thought that March 2009, another time of great fear, was a good time to invest. So far, so wrong. It is good to learn the lesson of fear and exuberance, and use reason to resist their pull."

August 23, 2009 *The Wall Street Journal*: "The Mistakes We Make—and Why We Make Them" Meir Statman

"Great investors tend to have a 'screw loose', pursuing the game not for profit, but for sport." – David Swensen, CIO, Yale University Endowment

"What creates opportunities is the fact that most investors -- and most human beings -- are constitutionally oriented to buying lottery tickets. They love to buy the dream, and when money is going into the dream, it's leaving other areas. And, it is that tendency of human beings to pursue those kinds of get-rich-quick opportunities that creates the value opportunities for the plodding, careful investors."

Columbia Business School Professor Bruce C. Greenwald

Helpful Financial Information

Minimum Distribution Requirements for Retirement Accounts. If you are currently required to take withdrawals from a retirement account (called Required Minimum Distributions, or RMDs), you may skip those withdrawals for the year 2009. If you turn 70½ in 2009, you have until December 31, 2010, to take your first withdrawal, which will be the only withdrawal required in 2010.

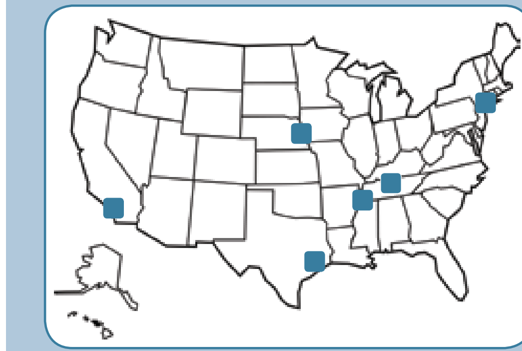
Estate Tax Exemption. In 2009, your estate may have up $3.5 million of assets and not be subject to estate taxes. In 2010, the estate tax is repealed for one year; however, many anticipate a change in this law in the closing months of 2009.

Beneficiary Designations. Financial institutions have always allowed for retirement plans to have beneficiary designations, and today, a regular individual account may have beneficiary designations as well. You may add one or more persons as beneficiaries, and you may also include charities as well. Account assets are usually distributed to beneficiaries more quickly than amounts that pass according to a decedent's will. Be sure to check with your tax advisor prior to making these changes.

Top –
Julius and Eddie waiting for the doors to open at the Berkshire Hathaway Meeting in Omaha, NE, May, 2, 2009

Middle –
Tim speaking with Sequoia Fund's Joe Quinones. Bob Goldfarb, David Poppe and Jon Brandt in the background, May, 15, 2009

Right –
Julius, Tim and Kevin at the offices of International Value Advisers in New York City, May, 14, 2009



Recent Travels

- In March, Tim attended the Whole Foods Annual Stockholder's Meeting in Nashville, Tennessee.

- In April, Eddie traveled to New York for the Selected Funds/Clipper Fund Investment Forum, led by portfolio managers **Christopher Davis** and **Kenneth Feinberg**.

- In May, Tim, Kevin, Julius and Eddie attended the Berkshire Hathaway Shareholders' Meeting in Omaha, Nebraska. While in Omaha, Julius attended the annual Markel breakfast meeting led by Vice Chairman **Steve Markel** and Chief Investment Officer **Tom Gayner**. Susan and Eddie attended the Longleaf Partners Funds shareholder meeting in Memphis, led by portfolio managers **Mason Hawkins** and **Staley Cates**. Tim, Kevin, Julius and Eddie traveled to Houston to meet with **Chris Wallis**, portfolio manager of the Natixis Vaughan Nelson Small Cap Value Fund.

- Also in May, Tim, Kevin and Julius traveled to New York City to attend The Sequoia Fund Annual Meeting. While in New York, they also met with President **Michael Malafronte** and analysts **Simon Fenwick** and **Thibaut Pizenberg** of International Value Advisers, LLC, managers of the IVA Funds. In addition, Tim had a breakfast meeting with **Lauren Romeo** of Royce Associates.

- In June, Tim attended an investment advisor conference hosted by Charles Schwab in Carlsbad, California.