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October 2009

Stock and bond prices rallied convincingly in the third quarter, as corporate profits actually exceeded Wall Street's gloomy forecasts and economic reports generally pointed toward recovery. The S&P 500 Index registered an impressive 15.6 percent gain, making it the best quarter in more than a decade for stocks. Investors are relieved to place the quarter in the "win" column, although, in the back of their minds, they may be wondering "is this the beginning of something great, or just a sucker punch?"

There is genuine progress to support this rally. Earlier in the year, liquidity began returning to fixed income markets, which has allowed public companies to access capital for their business activities. Bond prices recovered as fears ebbed, while stock prices benefited from better-than-expected corporate profit reports. Earnings per share for companies that comprise the S&P 500 Index climbed more than 35 percent from their abysmal year-end levels. A growing number of economic reports suggest conditions are gradually improving, even in such beleaguered sectors as residential real estate. From the standpoint of fundamental earnings growth, there is good reason to be optimistic about the markets, as profits are expected to rise by roughly 28 percent in the coming year.

However, as uncertainty shadows progress, there are also plenty of worries weighing on investors. Perhaps few other topics are as divisive as the political agendas for healthcare and tax reform that loom large heading into next year's mid-term elections. Lingering concerns over high national unemployment rates, which are hovering near ten percent, may be the only factor keeping inflation at bay. It is widely anticipated that the Federal Reserve will have to move quickly to tighten monetary policy in order to reign in any inflationary pressures, even if that action is required before employment conditions show notable improvement. Add some geopolitical hot spots around the globe to the mix, along with a dash of protectionist-style tariffs, ballooning budget deficits and a devalued U.S. dollar on foreign exchange, and we have a meal fit for a bear.

Reconciling optimism and fear can be difficult, yet that is likely to be the challenge as investors make their way toward year-end. The following thoughts might be helpful when confronting a period of uncertainty:

1. Have a plan that makes sense to you, before the markets go into a tailspin.
"If you don't know where you are going, you might wind up someplace else."
--- Yogi Berra
2. Down markets do not last forever, even though it might feel like they do.
"Pain is temporary. Quitting lasts forever."
--- Lance Armstrong

3. It can be reassuring to stay informed along the way. Please call us if you have any questions about your portfolio or economic events.
“One important key to success is self-confidence. An important key to self-confidence is preparation.”
--- Arthur Ashe
4. It is not necessary to act on every scary opinion reported by the news media.
“One of the nice things about problems is that a good many of them do not exist.”
--- Steve Allen
5. Even when the capital markets are going through tumultuous times, there are other things in our lives worth appreciating.
“You aren’t wealthy until you have something money can’t buy.”
--- Garth Brooks
6. Other people you meet are probably dealing with similar concerns.
“A smile is an inexpensive way to improve your looks.”
--- Andy Rooney

Capital markets have stepped back from the abyss. Portfolios have staged a welcome recovery from the March lows, and there are good reasons to expect the economy is gradually improving. As with other recoveries, there will likely be setbacks, so we believe it is too early in the upswing for investors to let down their guard. We continue to recommend a balanced mix of diversified equity participation and conservative bond holdings to help protect against the uncertain economic environment. Given the treacherous conditions investors have endured during the recent decade, it may be helpful to maintain an even demeanor, not getting too excited with the surges or too disappointed by the missteps along the way.

West Oak Capital celebrated its business anniversary on October 1st. As we head into our seventh year of service to clients, we are grateful for your support and patience during this remarkable period in capital markets history.