CEDAR HILL
WEALTH MANAGEMENT

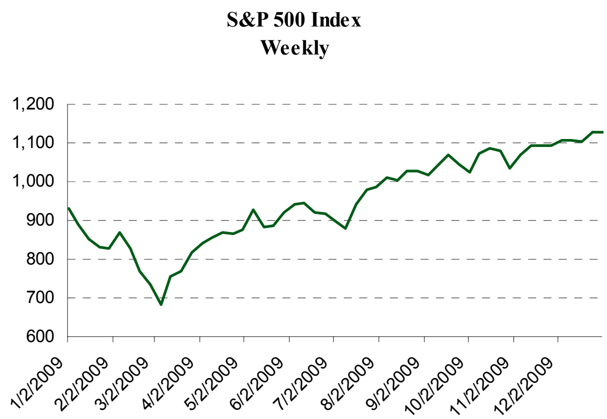
Quarterly Investment Review

December 31, 2009

Financial Review

With the curtain closed on 2009, we mark the end to one of the most turbulent years in the financial markets during the post-war period. We also ended the worst calendar decade ever for the U.S. stock market (with apologies to the purists who view the decade as ended at the end of 2010), a period that was essentially bookended by two recessions. Following a disastrous end to 2008, the U.S. equity markets continued on a downward spiral through much of the first quarter of 2009 as fallout from the Lehman Brothers' bankruptcy intensified and a near systemic collapse of the financial system sparked widespread fears about the global economy. This crisis in confidence ultimately sank the S&P 500 to a low of 667 on March 9th, a level not seen since September of 1996.

However, the massive amounts of cash injected into the economy through the government's aggressive fiscal and monetary policies slowly started to take hold during the year. Following the market nadir in March, the banking system began to stabilize; a number of leading economic indications began to show moderate improvement; and the prospects for corporate profitability began to strengthen. These developments set the table for a pronounced recovery in the S&P 500 during the last three quarters of 2009. By the end of December, the S&P 500 Index had increased 26% for the year and 66% from its March lows.

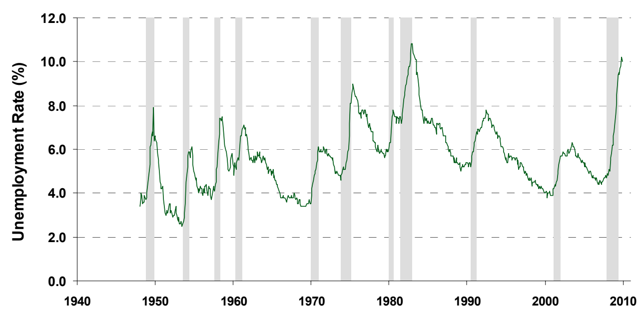


The robust market upturn since March has sparked debate as to whether this recovery is sustainable and whether the market can continue to advance on a healthy upward trajectory in 2010. Some observers dismiss the prospect for continued market appreciation from today's levels. Their list of concerns include: continued vulnerabilities in the financial sector, weak consumer spending prospects, a bloated federal deficit, declining value of the dollar, risk of inflation, and high unemployment. Although these skeptics would admit that the world has pulled back from the precipice of an economic collapse, they would contend that much of the economic expansion recorded in the second half of 2009 was driven by unsustainable government stimulus, including a near-zero interest rate policy, the cash-for-clunkers initiative, housing tax credits, and other artificial stimulus programs. They would further argue that with unemployment above 10% and unlikely to reach an inflection point before mid-2010, economic growth in the U.S. will be subdued for at least the next year (and perhaps longer).

While there are certainly reasons to be cautious as we move through 2010, we are more optimistic than some about the prospects for both the economy and the market going forward. After the longest (18 months) and deepest recession since the 1930s, the economy began expanding in June of 2009 and appears poised for continued growth in 2010. The government may have contributed to the recent uptick in GDP, but fiscal stimulus was hardly the sole source of growth and its absence is unlikely to stymie continued economic expansion. Housing starts and auto production bottomed at unsustainably low levels during 2009, and both sectors still remain well below normalized production levels. We believe this creates an opportunity for further improvement in these sectors and the broader economy in 2010, with or without government stimulus.

Concerns over inflation are justified as we believe it's likely a matter of when, not if, inflation and interest rates will start to rise. That said, the economic hangover created by this latest recession tempers the prospects of inflation as an immediate threat. Similarly, the Fed remains extremely reluctant to raise interest rates in the short term for fear of derailing the recovery. Though unemployment remains at uncomfortably high levels, the unemployment rate has historically been a lagging economic indicator in past recoveries as illustrated in the following chart. As economic activity strengthens, unemployment should eventually decline, creating a positive feedback loop for the economy.

U.S. Unemployment



Shaded areas indicate US recessions

Finally, unlike previous recessions, the strength of emerging economies (Brazil, China, India, etc.) will likely add a crucial boost to economic recovery. Many of these countries were far less impacted by the global credit crisis and remain much healthier than their developed country counterparts, placing the emerging markets at the forefront of a global economic upturn.

We believe the stock market is still in the early stages of a recovery and that a sustainable increase in the equity markets is likely to ensue over the coming years. After such a vibrant market recovery, there are certain to be some bumps along the way and perhaps even a temporary market pullback from current levels at some point in 2010, but we remain encouraged by the medium- and long-term outlooks for the market. While the last 10 years of stock market performance have been disappointing (to say the least), this only heightens our confidence that we are well positioned at today's market levels to benefit from more attractive returns in the decade ahead.

Core Equity Portfolio

During the fourth quarter, we initiated positions in UPS, CME Group, and Nvidia.

United Parcel Service (UPS) is the world's largest package delivery firm in terms of revenue and volume. We believe UPS is favorably positioned to benefit from an economic recovery as the company's package delivery service functions as an integral component of the supply chain operations for both large and small companies around the world. With responsibility for delivering more than 50% of all Internet purchases, the company will also benefit from the eventual upturn in consumer spending. Both volume and pricing should continue to strengthen as the global recovery continues to accelerate, but UPS has also shown an ability to raise prices when volumes are depressed. In November, the company announced it was increasing 2010 ground shipment rates by another 4.9%, following a 5.9% increase initiated at the beginning of 2009. We believe this type of pricing power is not only a testament to UPS' competitive strength, but will also prove to be a valuable arrow in its quiver to counter future inflationary pressures.

CME Group operates exchanges that facilitate the trading of futures and options on interest rates, equity indexes, foreign exchange, and other financial derivatives. The company also functions as a well-capitalized clearinghouse that guarantees transactions between counterparties across the financial industry. The lack of counterparty protection on non-exchange traded financial derivatives played a central role in the near collapse of the financial services industry during the recent credit crisis. Regulators have vowed to curb the financial sector's exposure to systemic risk in the future by creating more strict and standardized processes for clearing these so-called "over-the-counter" derivatives. We believe CME is positioned to become a significant beneficiary of the increased business this regulation will generate for its clearinghouse operations.

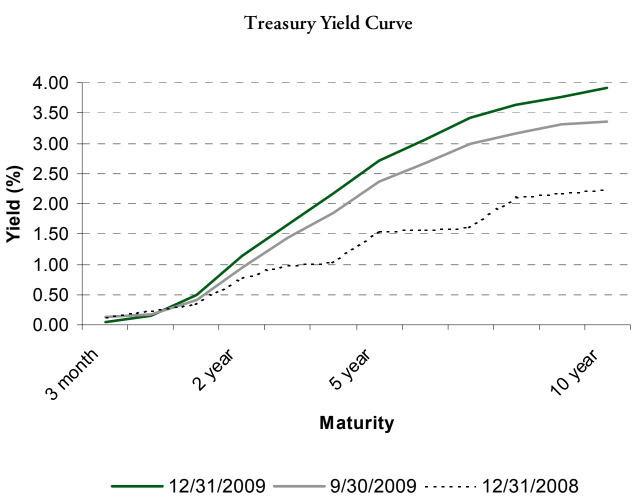
Nvidia is a leading provider of visual computing technologies that provide a crisp, high-quality graphical interface for gaming and multimedia content. While the company's products have typically been used in personal computers, one of Nvidia's most promising areas for revenue expansion is in the mobile computing space for products like cell phones, smartphones and netbooks. Although consumer products make up a small portion of revenues currently (less than 6%), consumers continue to demand more multimedia capability and longer battery life from these devices. Nvidia's mobile computing chipsets address both of these demands and could prove to be a significant catalyst for growth in the coming years.

We continue to believe the high-quality names held in the core portfolio provide solid price appreciation potential and an attractive risk-reward profile.

Fixed Income Markets

The U.S. treasury yield curve shifted higher in the fourth quarter, as improving economic data led many to believe that inflation is becoming more likely to emerge in 2010.

The sell off in treasury securities resulted in the yield of the benchmark 10-year United States treasury increasing 53 basis points for the quarter, with the yield ending the year at 3.84%. For 2009, yields on the 10-year rose over 160 basis points.



Despite the weakness in treasuries, corporate bonds continued to perform well in the quarter. Improving corporate profits – as well as the higher yields offered to investors – added to the relative attractiveness to these securities. At current levels, finding value in corporate bonds is a more difficult task. As a result, although attractive individual bonds may be found, we are more likely to be net sellers of corporates. Build America Bonds (BABs) and agency securities are currently slightly more attractive for new purchases. For tax-free investments, yields on short to intermediate duration municipal bonds remain more attractive on a risk-adjusted basis than stretching for slightly higher yields with longer duration bonds.

Alternative Investments

Event Driven and **Credit** managers performed extremely well in 2009, with many recovering all of their losses from 2009. Credit spreads (the difference between the yield on high yield corporate debt and similar maturity U.S. treasury bonds) narrowed from 17.3% at the end of 2008 to 6.5% at year-end 2009. With over $400 billion in high yield bonds and leveraged loans maturing between now and 2014, we expect the pace of preemptive recapitalizations (loan-for-bond, loan-for-equity, or bond-for-equity exchanges) to remain high, which should continue to support these strategies in the year ahead.

Equity Long/Short managers also performed well in 2009. We were pleased that many managers achieved performance significantly in excess of what would have been expected from solely evaluating their net and gross exposure levels. Good stock picking – along with increasing exposure levels as the market rallied – drove performance. Looking forward, this strong performance may continue, as the managers' short books – which were a drag on results during the impressive rally of 2009 – will more likely produce better results in 2010.

Private Equity activity was muted in 2009. Reasons for the subdued environment included: a) unavailability of credit, b) wide bid/ask spreads, c) the attractiveness of public equity valuations for most of the year, d) concerns over the potential wave of corporate defaults, and e) declining asset valuations. As the economy stabilized in the second half of the year and public equity valuations increased, bid/ask spreads on private equity transactions tightened as participants became more realistic in their expectations. We believe most private equity substrategies have hit their trough valuations and are cautiously optimistic that 2010 will be a better year.

Real Estate activity was nearly nonexistent in the first half of 2009, but increased in the second half along with the general economic outlook. Importantly, banks have marginally increased credit availability and a limited number of transactions have occurred. Despite this increase in activity, most real estate submarkets remain very soft with little demand from new tenants.

Final Notes

If you would like to receive commentaries from us via email, please send your request to debbi.frenzel@cedhill.com.

One Year Economic Overview

		Dec 2009	Dec 2008
Stock Market			
S&P 500 Index	▲	1,115.10	903.25
Russell 2000 Index	▲	625.39	499.45
Fixed Income Yields			
3-Month Treasuries	▼	0.05%	0.12%
5-Year Treasuries	▲	2.71	1.54
10-Year Treasuries	▲	3.84	2.23
30-Year Treasuries	▲	4.63	2.66
Inflation Monitor			
CPI-Trailing 12-Month Growth	▲	2.8%	0.1%
CPI-(Excluding Food/Energy)	▶	1.8	1.8
Market Expectations*	▲	2.4	0.0
Gold (per ounce)	▲	$1,096.95	$882.05
Crude Oil (per barrel)	▲	79.36	44.60

*Comparison of yields for 10-Year Treasury and 10-Year TIPs