ECONOMIC & MARKET UPDATE

SEPTEMBER 30, 2011

It was a rough summer for stock investors. An unusual number of factors came together to depress consumer, business and investor confidence. The result was that almost all stock market indices, both domestic and international, suffered losses for the quarter in the range of 15% to 20%. What made it even more difficult was that almost all stocks moved in tandem, leaving little room for any investment style to distinguish itself. In contrast, bond investors enjoyed a very good quarter as both flight to safety concerns and Federal Reserve action drove interest rates lower across the board. Some of the moves in rates were startling. The ten-year U.S. Treasury Note declined in yield during the quarter from 3.16% to 1.93% and the thirty- year maturity declined to a 2.91% yield from 4.37%. In summary, it was an event filled quarter, and in the aggregate certainly a difficult one.

Among the events that weighed heavily on investors' minds were slowing domestic economic growth, budgetary battles in Washington that threatened default on U.S. Government debt, a downgrade in the credit rating of the U.S., a continuation of the European sovereign debt crisis, and the undertaking of "Operation Twist" by the Federal Reserve. As consumers were barraged with a constant flow of negative news, their confidence crumbled, and they began to restrict their spending. Gross Domestic Product (GDP) was revised down sharply for the first quarter, and growth in the second quarter was tepid. Overall, growth in the first half of the year for the domestic economy was less than 1%.

If we were to single out one of these concerns as the most important in driving the stock market lower it would be the trend toward slower economic growth. Many fear that the trend will continue and trip us back into another recession. If so, corporate earnings would no doubt be reduced, and the underlying support for the stock market would be compromised. Because we all remember just how severe the last recession was, and because its aftereffects are still being felt in many ways, the prospect of a repeat performance is indeed scary.

We acknowledge that at current levels of economic growth there is not much margin for error, but we continue to believe the odds favor slow growth rather than recession. Furthermore, even if the economy were to slip back into a technically defined recession, it would not likely resemble the recession of 2007-2009. We note that housing, autos, and inventories were all major contributors to the sharp contraction in GDP in the last recession. Each of these areas is still depressed, but at least they have stabilized. It would be almost inconceivable for them to drop again at the rate of the last recession. Speaking generally, if GDP were to decline to something on the order of -1%, how much different would that feel than the current +1%? Not too much, we would assume.

As noted in previous letters, the Index of Leading Economic Indicators, which has an almost perfect record of forecasting recessions, is still in positive territory. First half factors of supply interruptions due to the Japanese earthquake and the spike in the price of oil are being reversed to some extent. Also, the consensus expectation is for 2% growth in GDP for the third quarter. We emphasize again our oft stated belief that the economy, while avoiding a recession, will be in a lower than average growth pattern for some time to come, perhaps even years. The good news is the potential for the recovery to be an extended one, again measured in years. This is our base line forecast, and we believe a moderately growing but lengthy expansion can be a favorable environment for investors going forward.

How can we feel that a favorable investment environment can lie ahead when there is so much to worry about? Perhaps this is a good time to review some of the basic investment principles we employ in the management of the portfolio. In a time of stress it is important to reaffirm a philosophy of investing, to be sure we are being guided toward consistent and sound investment decisions. We will attempt to discuss these principles in the context of the current economic and market environment.

ASSUME THE FUTURE VIABILITY OF THE SYSTEM. Many feel that the U.S. economy is in a long term and irreversible decline. While we are fully cognizant of a number of negative macroeconomic trends, we are keeping in mind the historic resiliency of our economy, the fact that we are still by far the largest and deepest economy in the world, and the rest of the world flocks to our bonds whenever trouble arises. Our political system, while currently mired in the deepest partisanship in memory, has in the past demonstrated the ability to engage and solve major issues. Now challenged in a major way over long term deficit issues, we will see if it has the capacity to rise to the occasion.

Investing is always about the future, which is uncertain, and therefore requires a leap of faith. The assumption that our political and economic models will provide an environment in which businesses can prosper is a necessary assumption. We have not given up on the American or world economies as a good place to invest.

INVEST IN COMPANIES, NOT THE STOCK MARKET. There is a difference between investing in individual companies and the stock market. Our research process starts with an analysis of individual companies, not stocks. We are looking for businesses that we would like to own outright. We want stable companies that can produce a consistent trend of earnings and dividends, companies that we can look at and conclude that they have staying power, and are strong enough in products, balance sheet and management to endure serious downturns in the economy. In stressful times such as these we are consoled by what we consider to be the inherent strengths of the companies in the portfolio.

INVEST FOR THE LONG TERM. We invest for our clients, we do not speculate for them. We also know from experience that there are ups and downs for the stock market. Corrections are a fact of life. We believe the current market turmoil will ultimately lead to a recovery in stock prices. By looking at the ownership of companies over the long term, we are able to look beyond the corrective periods and focus on what is important: the ability of these companies to increase earnings and dividends in a consistent fashion. In order to capture the compounding effect of rising earnings and dividends one must be invested for the long term. We also know how difficult it is to try to time the market. To do so requires a series of correct and timely decisions, something almost no one has ever done with great skill.

OWN COMPANIES THAT PAY DIVIDENDS. It has always been our practice to focus on companies that pay dividends, preferably companies that raise their dividend on a very consistent basis. The advantages of dividends are many. They provide a return that is a given. When we start the year we know we are going to have some return from dividends, regardless of what the stock market does. This factor stabilizes the return pattern as it helps shield on the downside. Over the longer term dividends have provided as much as 40% to 50% of the total return earned by stocks in general, and dividend payers have provided superior total return to non- dividend payers. We believe companies that place high importance on the dividend are shareholder friendly, a factor we view as important. Finally, consistent dividend payments are universally considered as an element of quality, and since emphasis on quality is our hallmark, we will always place a high importance of the dividend in our selection process.

BE CAREFUL WHAT YOU PAY. An analysis of our investment style will always point in the direction of value. We like to buy stocks when they are attractively valued, as indicated by price to earnings ratios, book value, dividend yield, or other valuation measures. We want to provide a margin for error and establish a consistent return pattern with lower volatility. Being careful not to pay too much for a company, combined with the emphasis on dividends, helps mitigate risk on the downside, and should increase the upside potential once the value of the company is recognized in the marketplace. The distinguishing factor in our approach to value is its emphasis on quality. Many value managers focus on lower quality companies that have higher leverage or significant business risk. We will not sacrifice quality to get value, but continually look for it among the universe of very high quality dividend payers. Within today's environment we are finding opportunities to purchase highly consistent, financially strong companies at attractive valuations.

These principles of investing have been employed by our firm for the last 31 years. We believe they are timeless, as proven by their success over this period of time. While their implementation may not result in instant or every quarter success, over time they have been very valuable in producing attractive, lower risk returns. Even in a trying and stressful environment such as we find ourselves in today, we are confident the consistent application of these principles will lead to a successful investment program.

This letter has been devoted to the economy and stock market. We have not addressed bonds because they have been beneficiaries of the turmoil in the stock market and concerns over softness in the economy. We have been pleased with the bond returns, and it seemed appropriate to give full attention to the outlook for stocks. We will include a fuller discussion on the outlook for bonds in following letters.

Best regards.

John

John H. Crawford, III

600 Galleria Parkway, Suite 1650
Atlanta, GA 30339
(T) 770.859.0045 (F) 770.859.0049