



October 24, 2009

Third Quarter Market Summary

Third quarter 2009 results for your portfolio benefited from continued strong returns and much lower volatility among equities. As was the case during the second quarter, in the U.S. the financial sector was again the performance leader followed by the industrial, materials (e.g., chemicals and mining), consumer discretionary (e.g., retailers), and technology sectors. The S&P 500 with dividends rose 15.61% during the third quarter, largely due to these four sectors. For safety's sake, we have generally underweighted U.S. financial and consumer discretionary holdings. However, these sectors, along with others, have been on our screen when examining and adding non-U.S. equities, an area of special focus, partially in light of the weakening U.S. dollar. Master limited partnerships continued to perform well, however as a group they lagged equities during the quarter. Bonds performed well, generally seeing returns in the high single digits as credit spreads continued to tighten, but bonds are likely to revert to more normal quarterly low single digit returns as the capital markets continue to stabilize.

Some will notice that their portfolio's allocation in bonds exceeds the proportion in the custom benchmark, a result of actions taken to reduce risk in light of the extraordinary volatility of the last twelve months. Bonds have performed unusually well over this period, but as cited above, bonds are likely to revert back to more normal lower annual returns. We are reexamining all portfolios to determine if reducing bonds is warranted given current market conditions.

The Economic and Markets Commentary suggests that the initial signs of economic recovery have appeared. Improvement in industrial production, new orders for durable goods, retail sales, and home prices point to economic recovery. However, unemployment in the U.S. will probably remain high throughout 2010, dampening consumer sentiment, which could limit growth to 2% to 3%, far lower than the 5% to 6% we're accustomed too during early recovery phases in past recessions. Another comment worth mentioning is the general expectation that corporate earnings could rebound substantially in 2010, and could provide further upside support for equities. Growth rates outside the U.S. could be much higher by comparison, highlighting interesting investment opportunities among non-U.S. equities.

We have lessened our caution in relation to the equity markets, and have focused greater attention to non-U.S. equities in particular. Bonds appear relatively less appealing especially with interest rates in the zero to five percent range. As always, please contact us at anytime to discuss your asset allocation and to share your thoughts on your portfolio or special needs.

Sincerely,

Joseph Tatusko, CFA

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