

Asset Returns

Dec 31, 2008	YTD	2007	2006	10 Year	20 Year
Domestic stocks					
Large	-36.7	5.2	15.8	5.9	11.8
Large Value	-36.5	-0.7	22.5	7.7	12.8
Large Growth	-35.5	11.5	8.9	3.8	10.7
Small	-33.7	-1.8	18.3	7.1	11.3
Small Value	-28.7	-10.2	23.4	9.1	13.3
Small Growth	-38.4	6.9	13.2	4.3	8.8
Micro Cap	-36.7	-5.2	16.2	10.6	13.5
International stocks					
Large	-41.0	10.0	25.8	9.0	7.8
Large Value	-41.7	4.2	30.3	11.1	9.8
Large Growth	-40.2	15.0	21.8	6.8	5.7
Small	-43.9	5.7	24.9	17.6	-
Small Value	-41.7	3.0	28.4	20.1	-
Emerg. Mkts.	-48.9	33.2	31.4	14.9	-
EM Value	-53.9	45.6	37.9	21.7	-
EM Small	-54.5	38.0	37.3	21.3	-
Sectors					
U.S. REITs	-38.8	-17.8	35.5	11.1	11.1
Energy	-39.0	36.8	18.0	11.5	12.0
Bonds					
Short Term	4.0	4.7	4.8	3.5	4.5
Five Year	4.0	5.2	3.9	6.2	7.5
Long Bond	22.5	9.2	1.7	7.3	9.3
Total Market	5.1	7.0	4.3	6.0	7.6
Other					
Inflation	-	4.1	2.5	2.7	3.1
Comm. RE	-	15.9	16.6	12.9	8.8
Residential RE	-	0.9	5.6	6.7	5.0
Hedge Funds	-	14.1	13.0	8.4	-
Commodities	-	16.7	-7.3	3.9	4.9

SOURCES:

Large Cap data is based on S&P 500 returns.
 Large Value and Growth returns are based on Russell 1000 Value and Growth data.
 Small Cap, Small Value & Small Growth are based on Russell 2000, R2000 Value and R2000 Growth data.
 Micro Cap returns are based on the CRSP 9-10 index of the smallest publicly traded stocks.
 Int'l Large, Large Value and Large Growth are based on MSCI's EAFE Indexes.
 International Small & Small Value returns are based on small company data in developed markets from DFA.
 Emerging Markets data is from MSCI's Emerging Market.
 Emerging Market Value and Small Cap data is based on Indexes maintained by DFA.
 REITs are based on the Wilshire REIT index.
 Energy data is from S&P's energy index.
 Short term bonds are represented by Lehman's index.
 Five year bonds are five year treasury returns and long term bonds are 20 year treasuries.
 Total Bond market is the Lehman Aggregate Index.
 Other data comes from the Federal Reserve, National Association of Realtors, HFRI & the CRB.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. INVESTMENT OBJECTIVES, RISKS, CHARGES, EXPENSES AND OTHER IMPORTANT INFORMATION ABOUT A FUND ARE CONTAINED IN THE PROSPECTUS; READ AND CONSIDER IT CAREFULLY BEFORE INVESTING. PROSPECTUSES ARE AVAILABLE ON COMPANY WEBSITES OR FROM TSI.

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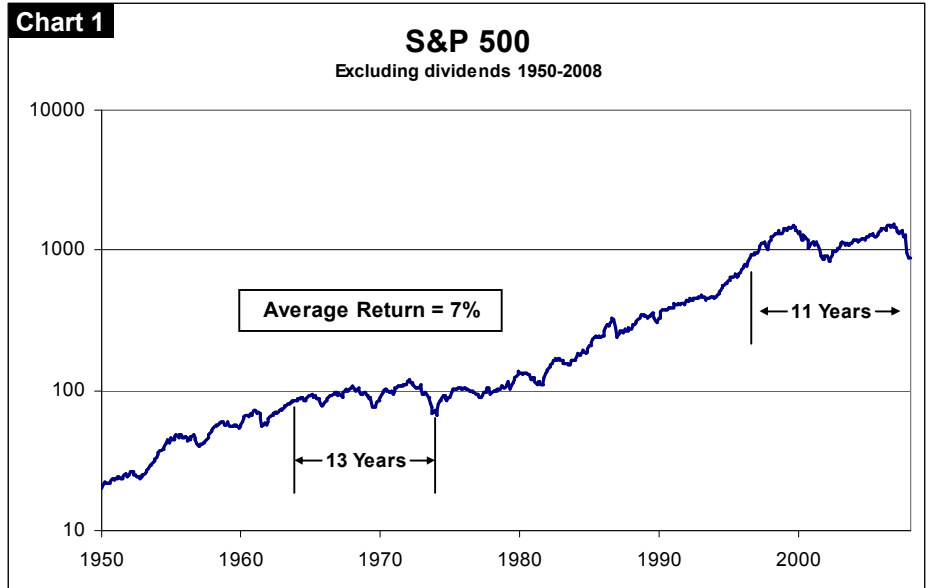
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Stock Earnings, Dividends and Returns Since 1950

I've been working in the investment business since 1997. I worked at JP Morgan as an analyst and a fund manager, on a \$1 billion hedge fund in Houston, and most recently with Thornhill Securities here in Austin. During those 11 years, I covered sectors that experienced severe declines (i.e. tech stocks from 2000-2003 and financials in 1998). Additionally, I saw the broad market decline over 40% from 2000 through 2002. The Nasdaq declined almost 80% during that same period. With the end of 2008, the market closed near the same level it was when I started in the business 11 years ago.

I can safely say I haven't experienced this type of broad bear market in my career. However, I was covering tech stocks when they dropped almost 80% from 2000 to 2002 and I saw a financial crisis from inside a money center bank when global markets melted down after the Asian Crisis and Long Term Capital Management. Understanding those periods and researching past market cycles are key to developing a long-term investment strategy. Our investment philosophy is built on 100 years of market history and data going back to the beginning of the 20th century.

In the October newsletter, I reviewed the relation between risk and return in the current market, and I questioned whether things are really "different." This month, I want to talk about stock ownership and look at earnings, dividends, and returns for stocks over the last 60 years.

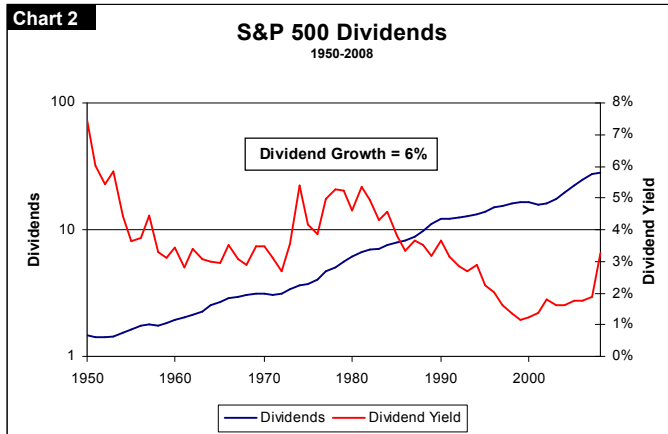


Stock Market Since 1950

Chart 1 shows the S&P 500 since 1950. The market can be characterized by four distinct periods. From 1950 through the early 1970s there was strong growth in share prices. During the 1970s, the market went sideways for over a decade. That period was followed by a 20 year bull market and now another decade of sideways movement. In the 1970s and during the last 10 years, the

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market has seen multiple declines greater than 20%. Although, Chart 1 doesn't include the returns from dividends (4% average over the 58 years), the total return for stocks over the 58 years was in line with the 9-10% average since the early 1900s.



Why did I start the chart in 1950 instead of going back to the Great Depression in the 1930s? Had I included the 50 years from 1900 to 1950, the return story would be similar to the last half of the 20th century and there would be a long sideways period from the late 20s through the 30s. However, prior to the 1950s investors felt stock dividends should consistently yield higher than bonds because stocks were riskier than bonds. Chart 2 shows a decline in dividend yields that accompanied the change in understanding of stock ownership vs. bond ownership. To understand this historic change, we need to review stock ownership and what it means for the investor.

Stock Ownership and Expected Returns

Investing in the stock of a company entitles you to a proportional percentage of the wealth created by that company (based on the share class and specifics of each company's ownership structure). If the company liquidates subsequent to your share purchase, you would get a pro-rata share of the liquidation proceeds. More commonly, the company might pay a dividend, and the market will set the price for shares based on prevailing sentiment specific to the company and the stock market. Share prices will fluctuate based on the market and the company's prospects. Prior to the 1950s, investors demanded dividend yields above bond yields to compensate for the volatility of stock prices. In 1950, the stock market dividend was roughly 7% and investment grade bonds yielded 3-4%. Investors didn't put any value on the potential for capital appreciation when owning a stock. Instead, they focused on the short-term price volatility and demanded a higher yield than bonds to endure that volatility.

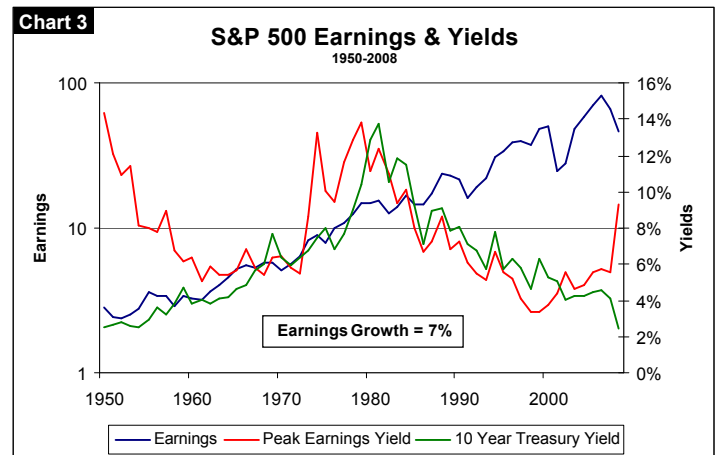
Over time, investors began to appreciate the potential for capital appreciation as part of the return story from owning stocks. The upside from a bond investment is repayment of principal and timely interest payments for the life of the bond. A stock can appreciate in value beyond the initial price and also pay a dividend. This

understanding caused dividend yields to decline steadily for most of the period from 1950. The bear market in the 1970s and the recent up-tick in yields are the two exceptions. The current 3% yield on the S&P 500 is higher than any time since the early 1990s and consistent with yields for much of the 1960s.

Although yields have fallen because stock prices have risen, dividends have grown steadily since 1950. Average dividends have grown 6% annually since 1950. The rate of growth has been relatively steady and much less volatile than share prices or earnings.

Earnings and Long Term Growth

If investors became less focused on short-term dividends, as witnessed by declining stock yields, they became more focused on long-term earnings growth and the opportunity to reinvest those earnings. Chart 3 shows earnings growth and yields for earnings and treasury bonds since 1950.



After earnings yields normalized in the 1960s, they have generally moved with the expectation for inflation as demonstrated by 10 year treasury rates. Higher inflation expectations lead to lower valuations (higher yields) because the future earnings will be worth less in today's dollars. Conversely, lower inflation makes future earnings relatively more valuable today.

Over the last 6 months, earnings yields have moved significantly above treasury yields for the first time since the early 1960s. This reflects both earnings volatility and less investor appetite for equity risk. Despite depressed current earnings, the long-term growth for S&P 500 earnings has been 7%. Ultimately, this earnings growth is the long-term driver of capital appreciation for stocks.

Conclusion

There is ample precedent for current returns, dividends and earnings over the last 60 years. Patient investors were rewarded in past periods of turmoil and I expect the same will be true this time, despite claims that "it's different this time."

Gabe Thornhill