TRIAD
INVESTMENT MANAGEMENT

4th Quarter 2009 Client Letter

"We've long felt that the only value of stock forecasters is to make fortune tellers look good"
-Warren Buffett

I love Buffett's quotes. I had the good luck to discover him back in the mid 1980's when I got into the investment business. And I share his view about stock market prognosticators. It's a waste of time trying to guess where the stock market will be in 3 months or 1 year. Identifying attractive long-term investments regardless of what "market experts" believe is the short-term direction of stock prices is the only rational approach to an occasionally irrational market. For common stock investments that means good businesses, run by capable owner/managers, purchased at attractive values. When I can't find investments that meet these criteria and provide adequate return potential for the risks, we will be less than fully invested, and wait patiently for opportunities.

Our investment results were more than satisfactory in 2009, as the enclosed Quarterly Summary will confirm. The year just ended was a good example of why it's difficult to succeed in the investment game. As the comic-strip philosopher Pogo said ***"we have met the enemy, and he is us"***. Controlling your emotions when others can't is as important to investment success as sophisticated financial analysis. 2009 was a roller coaster with the S&P 500 stock index declining in the first 2 months of the year by roughly 25%, bottoming in early March, then rising 65% from the low point to end the year up 25% or so. Not bad. Provided you stuck around for the full ride, and didn't sell out at the March bottom. But, guess which months of the year experienced the heaviest investor withdrawals from equity mutual funds? February and March 2009, right around the ultimate bottom. It happens all too often; investors panic and sell their investments at market bottoms, only to buy back later at much higher prices. Indeed, ***"we have met the enemy, and he is us"***.

Why do investors make such mistakes? It's tough to stay calm and make logical decisions during market panics. Logic would suggest that lower prices actually represent lower risk, and therefore investors should be buying, not selling during market declines. But logic goes on vacation when your stomach is churning, everyone's selling, and the assumption is made that "*the market must know something that I don't*". Mr. Market, the fellow with a dual personality, is stricken occasionally with a bout of depression that tells him to sell, regardless of long-term investment merits. How can this be possible? The market is controlled by people, and people make mistakes. What about "sophisticated professional investors"? Won't they ensure an orderly, rational market? I'd suggest that the professionals can't prevent occasional panics. These people like their jobs, and if customers or competitors are selling, job preservation often dictates joining the herd. It's not easy to reject the prevailing wisdom and depart from the herd. But, independent thinking, overcoming irrational fears and dealing with an often cloudy outlook are requirements for investment success.

The same thought process applies to ebullient markets. Occasionally Mr. Market gets in a manic state, becomes far too optimistic, and comes to believe the only direction is up. Selling over-valued investments, which often continue to go up after being sold, is very difficult for many investors. Part of my job is to take away the punch bowl (sell) before the party gets too wild and inebriation sets in. In my view we're not in that situation now, but we'll get there at some point in the future. Human nature says you can count on it.

With the foregoing in mind, it should come as no surprise that I have no idea what 2010 will bring. I ***believe*** we have seen the worst for the economy and markets, but recognize that I could be wrong in the short-term. However, I also believe that we own attractive long-term investments, managed by good people, with valuations still reasonable, notwithstanding recent market gains. In fact, I still have more good investment ideas than available cash. Which is another way of saying the current environment appears attractive. Eventually the tide will turn and I'll have more cash than good ideas. But that's not the situation now.

Since I don't claim to have a crystal ball (I don't think many do) when it comes to the economy or markets, I am frequently asked: **"*What exactly do you do all day long*"?** Even my own kids ask me this question. A couple of analogies come to mind. Managing money is like painting a house. When I was a kid I made a little spending money helping to paint houses for friends and neighbors. Painting was the fun part. Unfortunately, we had to do a few things before we could apply the paint. Scraping and sanding the wood, patching holes, masking with tape, laying out the drop cloths, etc. I learned that preparation is the key to a quality paint job. Investing is the same. I spend a significant amount of time evaluating investments. That means reading thousands of reports and financial statements, listening to conference calls, presentations, etc. It can take years of observation and evaluation before making an investment. Many times I reject an investment for various reasons. This is the preparation aspect that's critical to investment success, much like a house-painter.

But preparation is only part of the story. A few years ago we took a family vacation to Alaska. We watched the salmon swimming upstream to spawn, while the bears were patiently poised on the rocks waiting for a tasty meal. Successful investing is a lot like the bear; standing there, waiting patiently for a large salmon to come sailing out of the water. Remember, Mr. Market is only occasionally manic-depressive. The painter's preparation and the bear's patience along with the occasionally manic-depressive Mr. Market define the Triad approach to long-term investing.

The stock portfolios continue to be positioned in companies that should benefit from a recovering economy. That's our biggest risk; no recovery, or a very weak recovery. This is a 12 to 18 month type of risk, as over the next 3 to 5 years a recovery is more probable. If I've done my homework, there is plenty of potential over the next several years.

I don't usually send along articles, but the enclosed Wall Street Journal opinion piece written in December 2009 by Alan Blinder, a former Vice Chairman of the Federal Reserve Board neatly summarizes a positive but realistic view, and I encourage you to give it your time.

As I look back on 2009 and reflect back almost 2 years since I founded my firm, I very much appreciate your loyalty, patience and trust during an incredibly difficult time. You have my commitment to work hard on your behalf every day.

Sincerely,

John Heldman, CFA