FIRM UPDATE
3rd Quarter 2009

The beginning of fall marks the start of baseball playoffs and the continued growth of our firm and its accomplishments. We are less than nine months away from completing our three year track record. As we round third base and head for home we reflect on some of our accomplishments.

Highlights from our organization and performance include:

- A consistent and dedicated team
- A consistent, repeatable, and unbiased process that has served well through many market cycles
- A 100% employee owned firm
- Principals with experience exceeding 65 years
- A firm with an overcapitalized balance sheet
- For the quarter ending 9/30/09, our Small Cap Value product outperformed its benchmark by 1064 basis points gross of fees, and by 1032 basis points net of fees[1]
- For the quarter ending 09/30/09, our Equity Income product outperformed its benchmark by 1216 basis points gross of fees, and by 1171 basis points net of fees[2]
- Year to date ending 9/30/09, our Small Cap Value product outperformed its benchmark by 5718 basis points gross of fees, and by 5589 basis points net of fees[1]
- Year to date ending 09/30/09, our Equity Income product outperformed its benchmark by 4067 basis points gross of fees, and by 3901 basis points net of fees[2]
- Beta for both products less than 1.0

"We simply attempt to be fearful when others are greedy and to be greedy when others are fearful."

-- Warren Buffet

In our midyear report we spoke a lot about how behavior heuristics lead to decision making flaws that we all make, and we have been asked to discuss the topic further. In a nutshell, most of behavioral psychology has its roots in prospect theory, with its sole aim of describing or predicting human behavior, rather than characterizing optimal behavior. Prospect theory's main tenet is that people fear perceived losses more than they enjoy perceived gains. This is best illustrated through a subset of prospect theory called "framing". When I speak with audiences about heuristic modeling I generally have them answer some questions. Unbeknownst to audience members, they are subjected to two tests. One of the questions I ask is the following:

> Imagine the United States is preparing for the outbreak of an unusual disease, which is expected to kill 600 people. Two alternative programs to combat the disease have been proposed. Assume that the exact scientific estimates of the consequences of the program are as follows:

Test A:

- If program A is adopted, 200 people will be saved.
- If program B is adopted, there will be 1/3 probability that 600 people will be saved and 2/3 probability that no one will be saved.

Test B:

- If program A is adopted, 400 people will die.
- If program B is adopted, there is 1/3 probability that nobody will die and a 2/3 probability that 600 people will die.

Which of the two do you prefer?

What is interesting is that when you look closely both groups are being asked the very same question but worded (or framed) differently. An economist would probably expect statistically the same results from those taking Test A as those who take Test B. Below are the results I have compiled over the past decade.

Test A: Program A – 63%
Program B – 27%

Test B: Program A – 2%
Program B – 98%

What is even more amazing is that regardless of cohorts, age, level of education, title, or socio-economic status, the results are never statistically different. When audiences have a question framed as perceived gains (lives saved) their reactions are much more muted than those who see the same question framed as perceived losses (deaths). Next time you watch an infomercial listen for these subtleties.

BUY THE BEST, FORGET THE REST

Throughout my career consultants and clients have commented that it appears that I like to buy bad businesses. I disagree. A more accurate observation would be that I don't like to buy good businesses when everybody else is buying good businesses and thus at inflated prices. I, like Buffet, don't see the point of being greedy when everybody else is.

The turn of the millennium was an interesting time for investors. Most people remember it for the tech and telecom bubble reaching its peak. Others remember the Y2K apocalypse that never happened. For others, as oil prices lingered under $10 per barrel, we read report after report surmising that we would never see double digit prices again in our lifetime. (Ironically, I also read reports last year forecasting the same thing as prices shot above $100 per barrel.) What I remember most was "Buy the best, forget the rest." The rationale was quite simple. The best companies had the best growth prospects for decades to come and, given the shockingly low 10 year bond yield of just 6.6%, the discount mechanism supposedly justified P/E's at very high levels. How could one not want companies like GE, Home Depot, Merck, Microsoft, Pfizer, Oracle, and Wal-Mart in their portfolios? If you did not "Buy the best, forget the rest" you were losing, and the behavioral tenets in the investing public feared losing (not benefitting from a market going up quickly) more than they were concerned with gains (providing downside protection from high priced investments).

BUY AND HOLD IS DEAD

This is a common theme that we hear these days. It sounds quite different than the theme we heard ten years ago when all one had to do was buy the best and head to the golf course. Today's pundits argue that one needs to be nimble and time the market in order to preserve capital. We disagree. We believe that best investing processes are timeless and not timely. The only thing different in today's environment is that "losing" is now being framed as placing capital at risk. Unfortunately, this usually is only framed in this fashion after investors have substantial losses of capital. The Equity Risk Premium (what investors demand over the risk free rate to compensate for their lower status within the capital structure) implied by the current price of the market is very high by historical standards.

"Greed is Good"

-- Gordon Gekko, "Wall Street" (1987)

Consider the following group of companies since early 2000:

Company Name	Closing Price 3/10/2000*	Closing Price 10/1/2009	Change in Price	EPS 2001	EPS 2011 E	10 Year CAGR	P/E 2001	P/E 2011
Coca-Cola Co/The	44.69	53.12	18.9%	1.58	3.61	8.6%	29.7	14.7
Corning Inc	63.83	14.94	-76.6%	0.13	1.51	27.8%	1,492.3	9.9
Dell Inc	51.25	15.14	-70.5%	0.84	1.39	5.2%	64.2	10.9
eBay Inc	24.16	23.09	-4.4%	0.12	1.85	31.2%	1,436.7	12.5
EMC Corp/Massachusetts	63.79	16.51	-74.1%	0.09	1.23	29.9%	1,388.9	13.4
General Electric Co	43.90	15.97	-63.6%	1.41	1.18	-1.8%	110.1	13.6
Home Depot Inc	53.69	26.32	-51.0%	1.10	2.04	6.4%	58.6	12.9
Intel Corp	60.09	18.90	-68.5%	0.52	1.49	11.1%	253.7	12.7
International Business Machines Corp	105.06	117.90	12.2%	4.59	11.38	9.5%	25.7	10.4
Merck & Co Inc/NJ	56.37	31.18	-44.7%	3.14	3.92	2.2%	19.8	8.0
Microsoft Corp	45.44	24.88	-45.3%	0.90	2.19	9.3%	106.2	11.4
Oracle Corp	40.81	20.36	-50.1%	0.44	1.82	15.2%	177.4	11.2
Pfizer Inc	35.13	16.31	-53.6%	1.31	2.38	6.2%	27.9	6.9
QUALCOMM Inc	67.33	42.66	-36.6%	0.44	2.77	20.2%	335.7	15.4
Texas Instruments Inc	91.00	22.65	-75.1%	0.12	1.78	30.9%	1,333.3	12.8
Wal-Mart Stores Inc	47.94	49.00	2.2%	1.40	4.33	11.9%	39.6	11.3
S&P 500	1,395.07	1,029.85	-26.2%	38.85	92.52	9.1%	35.9	11.1
10 Year Treasury	6.38%	3.18%						

* Prices are split adjusted

Source: Bloomberg

These "best" of America have lived up to their billing. As represented by the 10-year CAGR ("Compound Annual Growth Rate") above, S&P 500 earnings have compounded at 9.1% over the decade, yet the index price is down 26.2% over the same period. (Note: for the above data group the median CAGR is 10.3% and the median price change is -50.5%)

There are plenty of reasons to be fearful in this economy and capital preservation is at the forefront of our investment process. Yet there are a lot of reasons to be optimistic about the opportunities this fear brings:

- The U.S. is the only major market down in absolute returns over the last decade (ex Japan)
- Equity Risk Premium is around its all-time high
- Bond yields are near 50 year lows
- While the market is up this year, it has underperformed corporate bonds, junk bonds, agency CMBS, agency RMBS, gold, and almost every major stock market in the world year to date
- In our opinion, with the exception of Canada, the U.S. equity market currently offers better value than any major equity market in the world

Today our Equity Income portfolio consists of many of these companies. If being greedy means building a portfolio of some of the best businesses the U.S. has to offer when the fear of others allows us to purchase them at what we believe to be great valuations, then like Mr. Gekko we are being greedy. And for clients we believe it will be a good thing.

Things are good. Gary Thomas, Gary Steiner, Emidio Checcone, Chris Karger, and I have now been working together at Huber Capital for over two years. Additionally, we recently added Chris Benway, from UCLA's Anderson School of Management, to our team. I firmly hold the belief that a consistent, repeatable, unbiased, long-term investment approach serves clients best over a long period. Our process is a discipline that I have employed through many different investment cycles. I believe that a superior process, consistent team, and a small asset base are the key ingredients of a successful investment product. We have no idea whether we are in the beginning of a new bull market or in the midst of a bear market rally. In his 2008 Annual Report and Letter to Shareholders, Warren Buffett wrote that the S&P 500 had been up in 33 of the past 44 years and that he expects it will be up a similar percentage of the time over the ensuing 44 years. We concur, and look forward to serving our current and future clients over the next 44 years.

"Performance is the output of a consistency of process, people, philosophy, and product."
-- Joe Huber

Sincerely,

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HUBER CAPITAL MANAGEMENT VALUES

10) Bigger is not necessarily better.
9) Act with honesty and integrity. Be straightforward always.
8) Be innovative, creative, and flexible.
7) Admit mistakes. Learn from them and don't repeat them.
6) Work hard. Your competitors are trying to catch up.
5) Treat others as you would like to be treated.
4) Remember that you have the onus of investing for the well-being of others.
3) Fight complacency. Your past successes are in the past.
2) The best investing styles are timeless, not timely.
1) Clients come first. Think of them and you will always be successful.

FOOTNOTES

[1]Returns for our Small Cap Value Product vs. its benchmark:

	Gross of Fees	Net of Fees	Russell 2000 Val
2007*	-16.23%	-17.02%	-13.08%
2008	-46.03%	-46.63%	-28.92%
3rd Qtr 2009	33.34%	33.02%	22.70%
YTD 2009	73.54%	72.25%	16.36%
ITD Annualized*	-10.23%	-11.33%	-13.64%

*Inception date of composite returns is 07/01/07. YTD and ITD composite returns are ending 09/30/09.

[2]Returns for our Equity Income Product vs. its benchmark:

	Gross of Fees	Net of Fees	Russell 1000 Val
2007*	5.94%	5.16%	-6.03%
2008	-52.97%	-53.72%	-36.85%
3rd Qtr 2009	30.40%	29.95%	18.24%
YTD 2009	55.52%	53.86%	14.85%
ITD Annualized*	-10.72%	-12.06%	-15.66%

*Inception date of composite returns is 07/01/07. YTD and ITD composite returns are ending 09/30/09.

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From time to time the portfolios may invest in shares of companies through initial public offerings (IPOs). IPOs have the potential to produce substantial gains. There is no assurance that the portfolios will have continued access to profitable IPOs and as a portfolio's assets grow, the impact of an IPO investment may decline. Therefore investors should not rely on these past gains as an indication of future performance.

Gross performance returns are time-weighted rates of return based on the Daily Valuation Method, and are presented before advisory fees, but after custodial fees and brokerage commissions. Performance returns include cash, cash equivalents, accrued income and reinvestment of dividends and income. A client's return will be reduced by the advisory fees and other expenses incurred as a client. Our fees are described in Part II of our Form ADV. Advisory fees will have a compounding effect, over a period of years, on the value of a client's portfolio. For example, an annual fee of 50 basis points charged quarterly for 5 years will result in a compounded aggregate investment advisory fee of 252.5 basis points.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Russell 2000 Value Index (RV2000) consists of the small-cap value segment of the U.S. equity universe. The Russell 1000 Value Index (RV1000) consists of the large-cap value segment of the U.S. equity universe. Performance of these indexes does not reflect any fees, expenses, or taxes. Investors cannot directly invest in the indexes.

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