BEDROCK
CAPITAL MANAGEMENT

Proven Investment Management, Personal Service

January 20, 2010

Dear Clients:

As we close the books on this past quarter at Bedrock, we're pleased to provide you with a summary of our recent results and commentary on the current economic environment.

Results

All Bedrock portfolios finished the year with strong gains. Our core equity funds that track the S&P 500, after a dismal start to the year, were up 62% from the market bottom of March 9. The large-cap stock index gained about 6% in the fourth quarter and finished 2009 with a 26.5% gain rebounding from the 37% loss in 2008. The long-term investment-grade bond fund also added to all Bedrock portfolios' performance with a return for the year of 8.75%. With respect to bonds, while it is true that rates are low and this will limit returns, much of the non-government bond market, while no longer cheap, should continue to deliver returns over the next few years with far less risk than equities. We should note that we are cognizant of inflation risk, which would be bad news for bonds, though we don't see that risk as imminent. Nevertheless, our taxable bond funds have the flexibility to make adjustments in a rising-interest-rate environment that can mitigate the impact of rising inflation.

The strategic asset classes outside of our core funds fared even better for 2009. Mid-cap equities led the performance of all domestic stocks with a 37% gain and small-cap returns were in line with the S&P index. A weaker US dollar vs. most other world currencies aided international investment performance. By far the strongest asset class last year was emerging market stocks –up 74%, bringing poor recent performance back to positive returns for the past three years. Developed country stocks outside the US also had strong returns exceeding 27% gains. Even with the slowdown in commercial real estate markets over the last couple of years REITs came roaring back with a gain of 38% in 2009. Although inflation was under 2% last year, government inflation adjusted bonds (TIPS) gained 10% due to investor demand and fears of future inflation. Basically everything worked in 2009.

Quite a 10 Years

A review of this past decade, although painful, is worth undertaking, not to predict the future but to better understand the past. First the tech market bubble burst in March 2000 and it took the stock market until October 2007 to fight its way back to an average return of 3.5% for the decade. Then for the 16 months between November 2007 and February 2009 the S&P went into freefall, dropping 55% and giving back all the gains for the decade. Bond performance for the decade was up over 7% per year and in line with historical levels and inflation was a tame 2.5% for the past 10 years. This was a "stress test" for portfolio management theory because using non-correlated assets classes that are supposed to be

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good defensive plays for portfolios did not provide much benefit during the downturn. Then, as noted above, virtually every asset class ended 2009 with exceptionally strong returns. This once again underscored how impossible it is for investors to time the market. Our approach to diversified asset allocation requires a multi-year time horizon. We will not always be rewarded quickly so patience is required—a critically important investment trait for Bedrock clients.

Current Economic Situation
We are starting to see signs of life in the economy and the beginning of a recovery, but significant headwinds may remain. We are still in the midst of a major transition in the economy. The process of household debt reduction is far from over, and this comes at a time of declining home equity and high unemployment—ending the year at 10%. Struggling commercial real estate and tight credit suggests uncertainty about the economy. Meanwhile, as government stimulus spending unwinds over the next two years, there is a risk that we could tip back into recession at some point, although we see this as unlikely.

So far, the equity markets have been able to deal with these worries. On the positive side it appears consumer spending bottomed in December 2008 and ultimately moved upward for most of last year. Manufacturing production reached a floor in June and unemployment and business capital spending appear to be close to bottoms. Strong emerging-markets economies are feeding back into the global economy, which is a positive for exports and manufacturing. Corporate balance sheets, outside of financial companies, are in good shape with the best liquidity in 50 years. Inventories are low and a rebuilding cycle is beginning, which will support growth. Over the last several years companies have cut costs and they may have overreacted and could be forced to aggressively increase investment and hiring.

Bedrock Update
The Bedrock team's latest avocation is golf. Both Sharon Lacy and Tony Blagrove are attending a golf school two mornings a week and are practicing avidly. Joel participated in a charity golf tournament at Los Altos Country Club in October benefiting the Second Harvest Food Bank. The format matched two men against two lady players. Joel and his partner drew Julie Inkster and her teenage daughter as their opponents. For those of you unfamiliar with Julie's accomplishments, she is a Member of the World Golf Hall of Fame and has 31 professional victories on the LPGA tour. Needless to say Julie's team was victorious but everyone had a great day. Lois Springsteen continues to serve as President of Randonneurs USA supporting her passion for long-distance endurance cycling.

There are a couple of procedural matters we bring to your attention each year. In your packet this quarter you will find Bedrock's "Privacy Statement" detailing our commitment to maintaining our clients' confidentiality. Each year we file a revision of our investment adviser registration document, Form ADV, to make it current, as required by law. The hotlink to our updated ADV on the Bedrock website is:

http://www.bedrockcapital.com/resources/documents/legal/bedrock_advform_part2.pdf

We continue to meet with many of you to review your situation and determine if your portfolio still reflects your current objectives and risk-return balance. This year we are also focusing on multi-generational planning. Many of you have adult children that are reaching the point in their lives where it may be time to make them aware of your financial situation and for them to solidify their goals and develop their own financial plans. If you would like to schedule an update meeting for you or any other members of your family we are ready to revisit your situation strategically whenever you are.

Best regards,

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