Red Granite Advisors LLC
Fourth Quarter 2009 Commentary

The December recovery of the U.S. Dollar impaired the performance of commodity-oriented stocks and caused the performance of Red Granite Advisors' Large Cap Growth portfolio in the fourth quarter to trail the Russell 1000® Growth Index, which was up 7.94%, and modestly outperform the S&P 500 Index, which was up 6.04% in Q4. While energy and materials companies were laggards, technology, health care and industrial companies were leaders in the fourth quarter.

For 2009, the Russell 1000® Growth and S&P 500 Indices were up 37.21% and 26.46%, respectively. We outperformed both of these indices on an annual basis due to our above-benchmark positions in energy and healthcare and because we took advantage of a great opportunity provided by the stock market panic in early March to buy unique, industry-leading growth companies at very attractive valuations.

The significant advance of the stock market from its low in March suggests that the near-term recovery should be robust. After having lent, spent or guaranteed more than $11 trillion, the federal government has calmed the panic, stabilized the financial system and kick-started economic growth. The economy should continue to benefit from the nearly $450 billion of the fiscal stimulus package that remains to be spent in the next six months, the re-building of inventories and the recovery in global trade. There is also considerable potential for corporate profit margin expansion because companies aggressively reduced costs a year ago and thereby substantially increased operating leverage that can be realized with revenue growth in 2010.

However, once the stimulus subsides the economy will still face significant headwinds. Though the Federal Reserve has rapidly expanded the monetary base, the growth of the broad monetary aggregates has slowed and securitization has severely contracted. With banks de-leveraging and lending standards high, the banking system is poorly positioned to play its traditional expansive role in this recovery. Moreover, consumers' new-found frugality, state and local budget deficits, and the large overhang of distressed housing will mute what otherwise could be a strong economic cycle.

We see several additional factors that could jeopardize the recovery. When economic growth becomes self-sustaining, the Fed could be too slow in withdrawing excess liquidity from the system due to the frailty of the financial system. Further depreciation of the dollar would pressure inflation. The need to fund huge deficits could crowd out private sector financing and force interest rates higher. We will be watching employment data, money supply growth, bank lending (money velocity) and emerging markets to gauge this cycle's strength.

The stock market may gain 20% from this point in this cycle driven by the rebound in earnings growth during the initial stage of the recovery as the prospects of rising inflation, interest rates, and taxes constrain valuation multiples. Low interest rates have supported high valuations for stocks but with short rates near zero and nearly certain to rise, the best gains may be past for the early market winners in this cycle. We expect investors will rotate to more reasonably valued stocks once the leaders' momentum wanes.

An active approach to risk management and sector allocation should be constructive as the recovery unfolds. We believe that reasonably-valued, high-quality growth companies with strong competitive positions should fare well in this environment. Thank you for your support.

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