CYPRESS
ASSET MANAGEMENT, INC.

MARKET COMMENTARY — October, 2009

Another Strong Quarter For Stocks

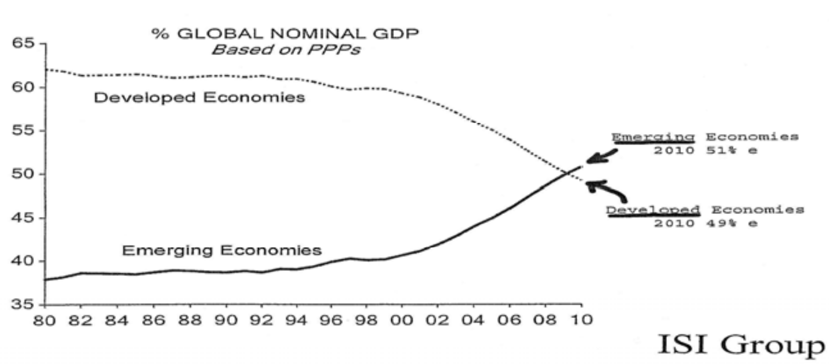
U.S. and global stock markets have staged a remarkable turnaround in 2009. The S&P 500 gained another 15.6% in the third quarter and is now up 20% year to date. This performance builds on the strong recovery which began in the second quarter and was achieved despite widespread fears over seasonal weakness and past September market swoons. In fact, the just ended quarter represents the second best third quarter performance since 1960. Coming off the historic global market collapse of 2008, 2009 now stands as a solidly positive year for stocks. A global economic recovery has enabled markets to climb a wall of worry and slowly begun to pull investors back into equity markets. Thus far in 2009 other developed markets have performed essentially in line with the U.S. (with the exception of Japan which is only up 8%), paced by Canada and Australia which have been particular beneficiaries of the increasing demand for natural resources from the global recovery. Not surprisingly, emerging markets have been the best performers with China and Brazil both up some 50% on the year.

Economic Overview:
A Year After Lehman, Where Are We Now

The U.S. economy is recovering and credit markets are now almost back to normal. However, this is inherently a global recovery. The resumption in global demand has been led by emerging markets. Put simply, emerging markets don't have our problems. Their balance sheets are generally strong and improving and their demographics more favorable (i.e. in contrast to the West and Japan, populations are younger and, in most cases, growing).

In a historic shift, emerging market economies (China, Brazil, India, et al) are now bigger than the developed economies in Purchasing Power Parity terms. As a result, they are even more able to drive global growth going forward (the Purchasing Power Parity exchange rate is the amount of currency that would be needed to purchase the same basket of goods or services as one unit of the reference currency, usually the U.S. dollar. In other words, it is a kind of currency adjustment mechanism). Just ten years ago the developed economies still represented 60% of global GDP and the emerging economies 40%, and these levels had remained relatively stable over the preceding 20 years. But starting around 1999, emerging market growth accelerated while developed markets decelerated with the crossover point occurring this year. Similarly, earlier this year Chinese vehicle sales actually surpassed those in the U.S.

Both these historic developments could temporarily reverse for a time during the next year as the recovery in the U.S. and other G-7 economies picks up steam and the U.S. auto and housing markets "normalize", but the longer term trend and direction is clear. The growth torch has been passed to China, Brazil, India and the emerging markets.



With China's domestic stimulus program leading the way, GDP growth actually began to turn solidly positive in many economies around the world during the second quarter:

Real GDPs Q/Q % AR

	1Q 2009	2Q 2009
Turkey	-14.3%	15.1%
Korea	0.5%	9.7%
Hong Kong	-17.7%	13.8%
China	5.6%	16.0%
Thailand	-7.2%	9.6%
Brazil	-3.8%	7.8%
U.S.	-6.4%	-0.7%

The U.S. economy is expected to return to growth in the third quarter and could post 3% GDP growth in the second half of the year, something unthinkable to most observers just a month ago. Globally, employment has already started to pick up, increasing recently in six major countries outside the U.S.:

Employment Growth

	Trough to Current	In Terms of Equivalent U.S Payroll Employment
Korea	+1.1%	+1,440,000
Brazil	+1.0%	+1,309,000
Russia	+0.9%	+1,179,000
Japan	+0.5%	+ 655,000
Australia	+0.4%	+ 524,000
Canada	+0.3%	+ 393,000

In the U.S., employment is clearly lagging but generally appears to be in an improving trend. American corporations, in the eye of the financial storm and experiencing an unprecedented drop in demand, may have over reacted and cut jobs too deeply. Put differently, the increase in productivity has been spectacular in the early stages of the recovery. It should also be noted that U.S. labor costs have become very competitive with the dollar's depreciation, so we are better positioned to participate in a global upturn.

Equity Valuation And Outlook

Equity valuations remain reasonable, with the S&P 500 trading at roughly 15 times 2010 consensus earnings. If S&P 500 earnings do indeed rise to about $75 next year, an increase of 15%-20%, earnings will still be 16% below their 2006 peak of $88. The S&P 500, however, is still 30% below its all time high, indicating that if we are right about corporate earnings in the second half of this year and 2010, the market is attractively valued by historical measures and has room to work its way higher.

Corporate earnings continue to improve faster than expectations, and sustaining this earnings momentum is a key to stock market performance moving forward. Just six months ago, Wall Street was looking for combined earnings of around $45 for the S&P 500 for this year. Today that number is above $60 and still rising. This is a remarkable turnaround. If, as we believe, corporate profits continue to be better than expected, the market will follow and can move higher without an expansion in PE multiples. The earnings growth is being fueled first by productivity gains and can be sustained by a pick up in employment next year.

Liquidity, Bonds, and the Stock Market

A significant amount of money remains on the sidelines and in bonds. As reported by Bloomberg, the Fed estimates there is about $9.5 trillion in current liquid “cash” reserves (cash, CDs and money markets), which is larger than the entire market value of the S&P 500, about $9.2 trillion. Investors remain generally skittish and wary of the stock market, preferring to stay on the sidelines, and thus far willing to accept historically low domestic interest rates. In fact, according to Morningstar, bond funds have attracted over $200 billion in funds through the first eight months of 2009 compared to only $15 billion for equity funds.

All the while the dollar has been under pressure and declining, and gold has risen to a new record high. The rise in gold and in oil, copper, and other commodities tells us that monetary inflation is already here and that the market expects further weakness in the dollar. Barring an unforeseen bad event or major set back in the global economy, domestic interest rates are set to rise before very long, and perhaps quite significantly. Interest rates should increase due to rebounding growth in the global economy or inflation or both. There lurks a potential bubble, not in hard assets or equities, but in bonds. Assets like common stocks, real estate, natural resources and other hard assets all stand to benefit significantly from reflation. We have written often before, and continue to believe, that the global economy and growth from the newly industrializing and developing countries provide good opportunities for investment.