EARL M. FOSTER ASSOCIATES

INVESTMENT MANAGEMENT

MARKET UPDATE

November 3, 2009

Investors may have bid up stock prices too aggressively in light of the modest economic recovery expected for 2010. Following a more than 60% rise from its lows, the Standard & Poor's Index seems to be taking a "breather" as it digests the latest economic data and corporate earnings releases. While the reports have been "less bad" than previous quarters, they may not be "good enough" to avoid retracing some of the extraordinary rise since last March, which was a concern expressed in our October ***Newsletter.*** Perhaps this accounts for the recent decline in the S & P 500 Index.

Additional stock market weakness is possible in the near-term. Valuations are not as compelling as they once were and further weakness on the employment front may curb growth expectations for next year. However, the risk return prospects for stocks still remain favorable. While some debate whether the rebound in business conditions will be more sluggish or more rapid than economic forecasts, there is widespread consensus that the economy is in a recovery mode. Corporations have aggressively cut costs and once the economic recovery is better established, sales are expected to rebound which should lead to a substantial rise in stockholder earnings. In time, a rising economy should support higher stock price levels.

In this respect, any pull-back in stocks should be viewed as an opportunity to continue to position portfolios to participate in the economic recovery. The emphasis should be on those companies selling at attractive valuations relative to their earnings and favorable growth prospects. Such companies should be better able to withstand a further market correction, while at the same time, fully participate in the resumption of the stock market recovery.