



2009 As a Bridge in Time:

We Expect the Chaos
To Lead to Opportunity

John Buckingham
Chief Investment Officer
AI Frank Asset Management

November 2009

AI Frank
ASSET MANAGEMENT

AI Frank Asset Management: Company Overview

All-Cap Value

- Go anywhere investment strategy
- Can be used as core or satellite manager
- Two proprietary mutual funds
- Multiple separately managed account strategies

Investment Team & Approach

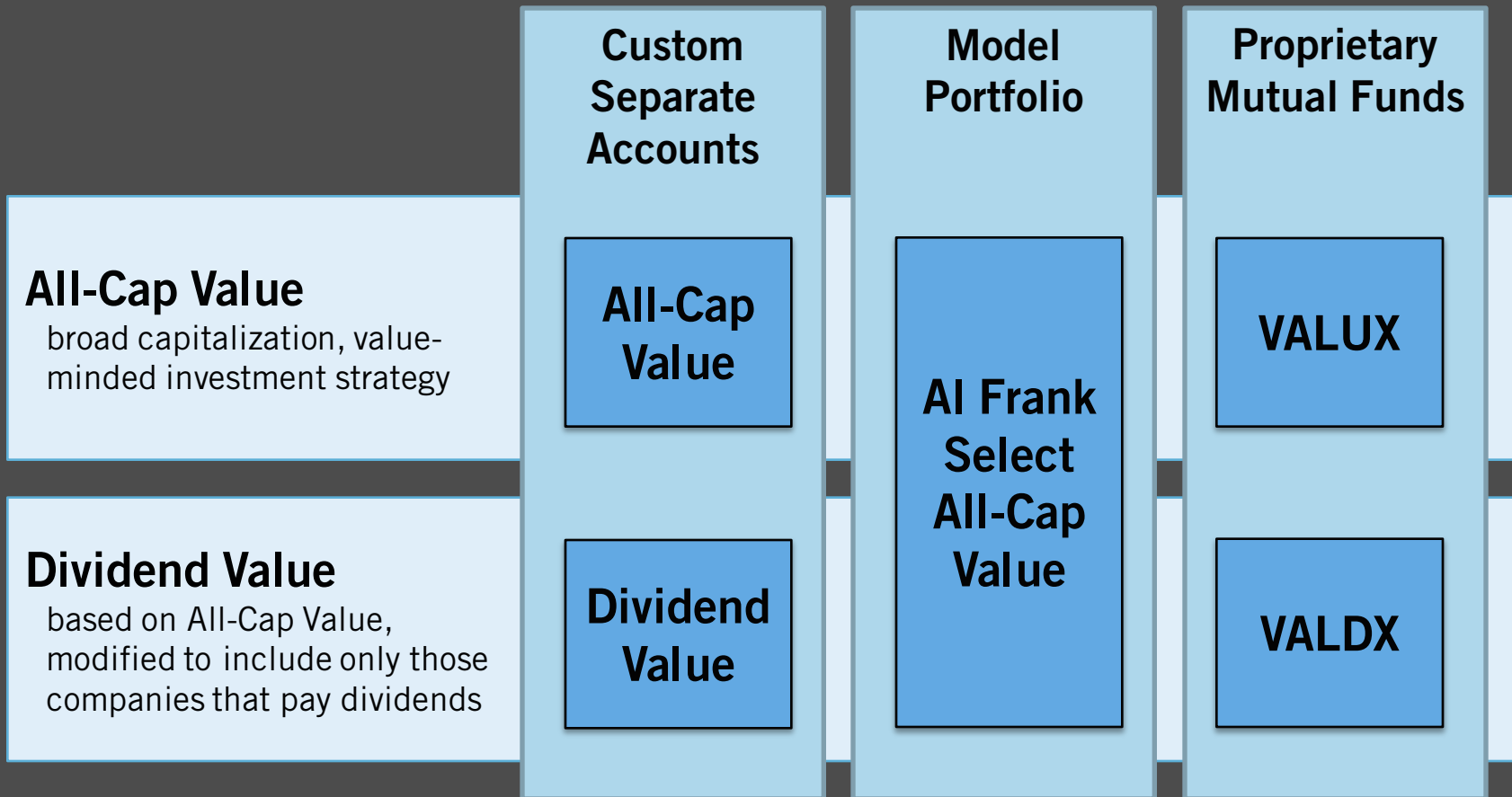
- 44-year-old Chief Investment Officer; 20+ years at AI Frank
- Consistent approach of buying large baskets of relatively undervalued securities for their long-term appreciation potential
- 4 CFA charterholders on staff

Editorial Heritage

- AI Frank was a teacher by trade.
- A top-ranked investment newsletter, *The Prudent Speculator* in terms of total return performance according to the *Hulbert Financial Digest*
- Insightful weekly updates—*Market Commentary*
- Transparency

Past performance is no guarantee of future results. Refer to the disclosures section for more information about the Hulbert Financial Digest ranking.

Diverse All-Cap Value Solutions



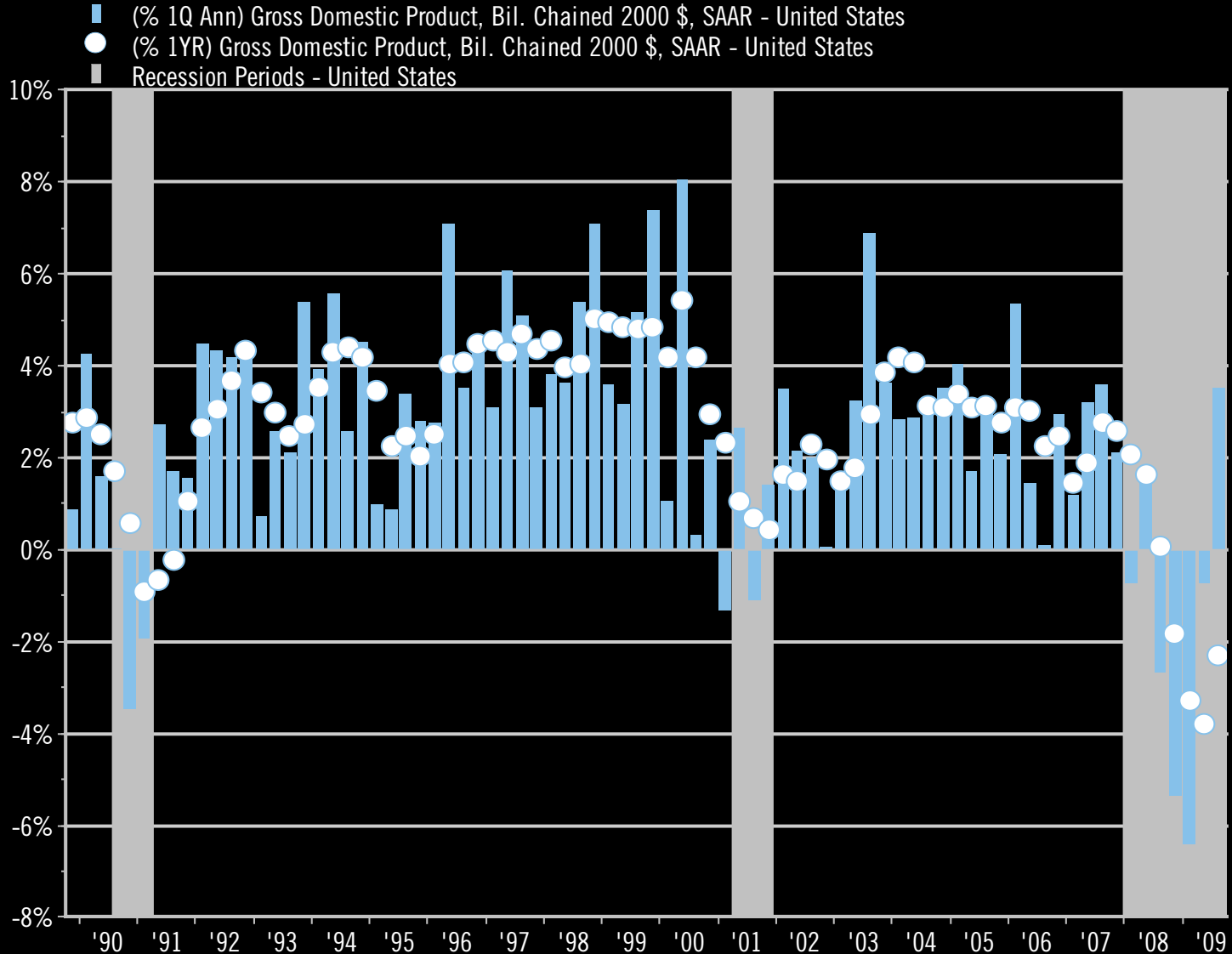
Discussion Points:

1. The Great Recession
2. Where do We Think the Economy is Headed?
3. Market Review
4. Market Outlook
5. Current Positioning

The Great Recession

THE ECONOMY—ABOUT AS BAD AS IT GETS

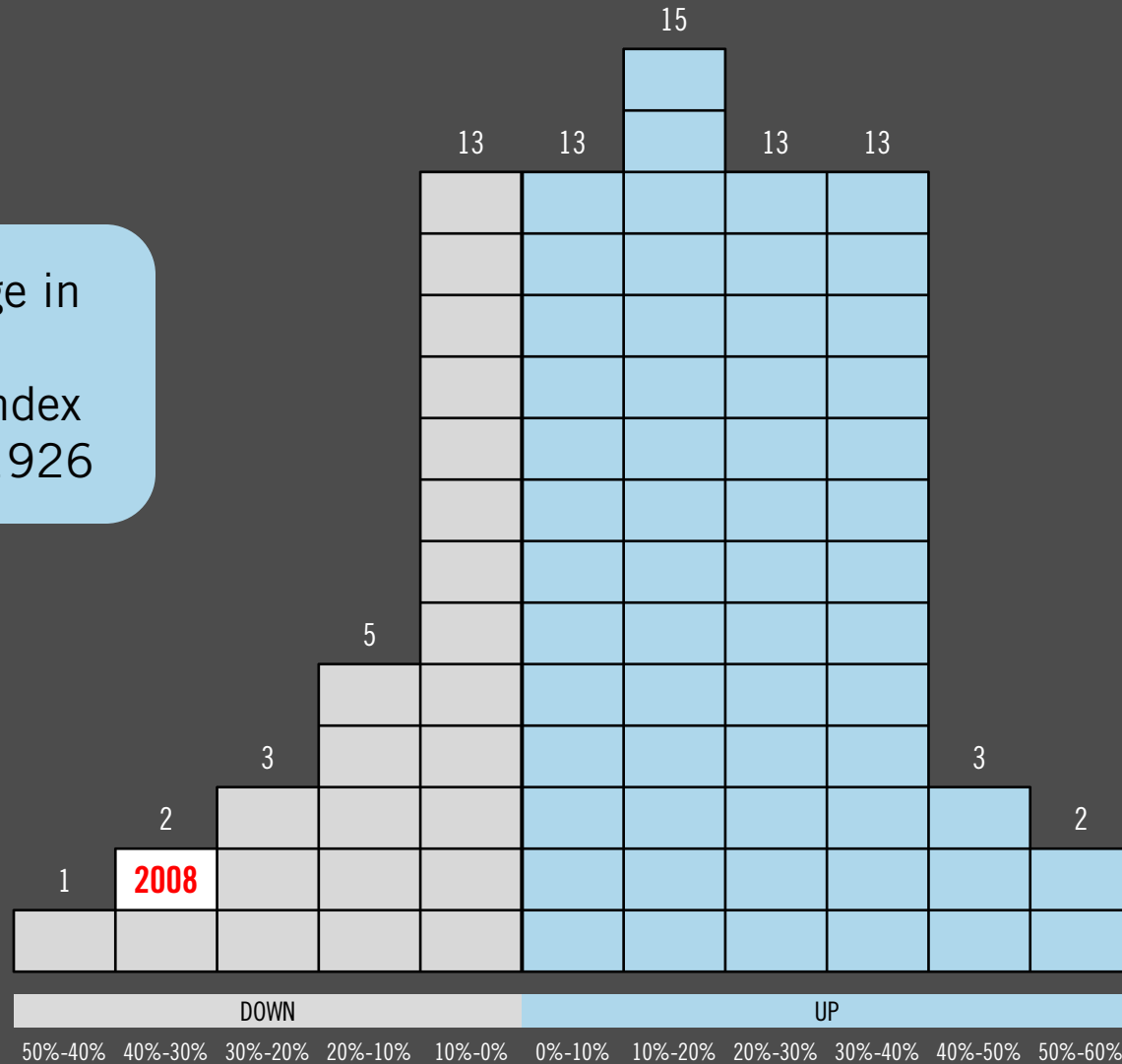
US Real GDP Growth



SOURCE: FactSet Research Systems

U.S. EQUITIES—2008 WAS AWFUL...

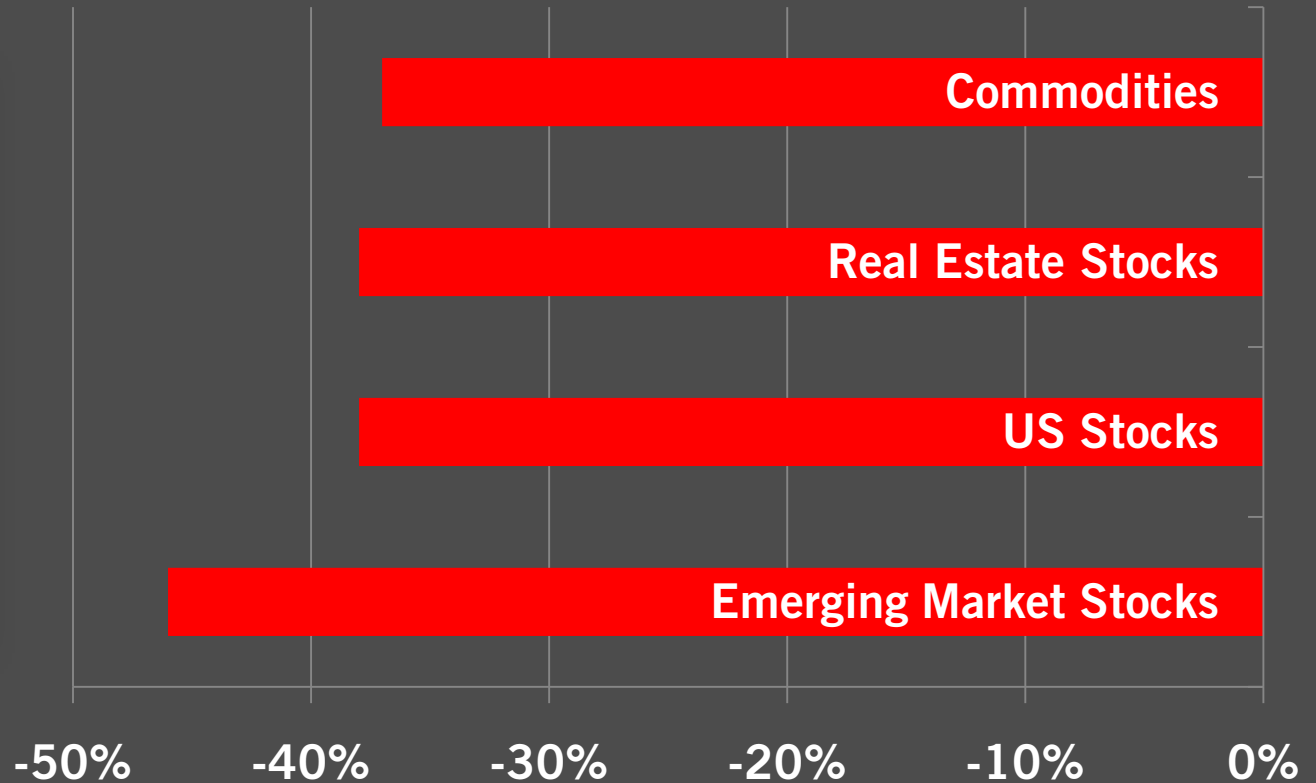
Percent change in the S&P Market Index by year since 1926



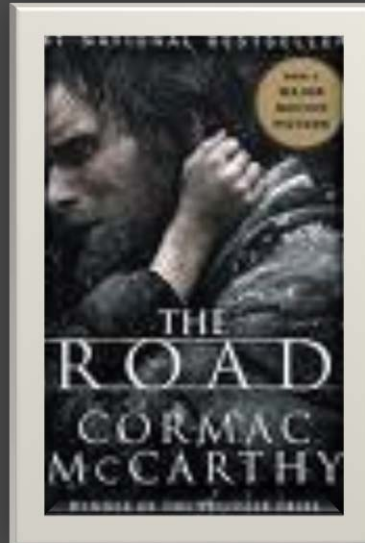
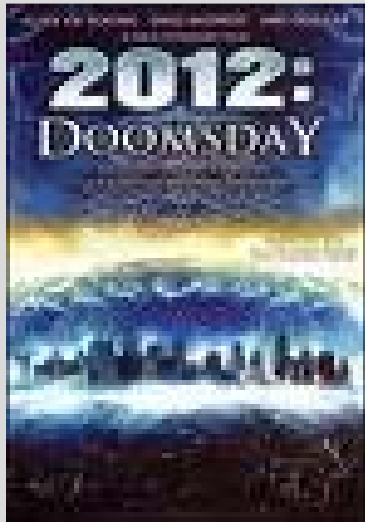
Number of Years with Performance within the Stated Range

...BUT NOTHING MUCH WORKED

2008: Selected Asset Class Returns



INVESTORS WERE FEARING GREAT DEPRESSION II OR SOMETHING EVEN WORSE!



A SENSATIONALISTIC MEDIA DIDN'T HELP



As the drama unfolded Thursday afternoon, the cable news networks logged ratings roughly double their usual averages, according to the Nielsen Co. Some of the coverage was deemed so crucial it aired without commercial interruption.

EVEN MAINSTREAM FINANCIAL MARKETING FOCUSED ON FEAR



March 2009 Commercial

Source: <http://www.aboutschwab.com/advertising/talk-to-chuck/advertising-video.php>

Buying High
&
Selling
Low

**“I want to stop losing it
and start saving it.”**

**DO SOMETHING
ABOUT IT.**

**TALK TO
CHUCK**

IT'S DIFFERENT THIS TIME...

“...Already racked by devastating double digit inflation, the nation is now also plunging deeper in to a recession that seems sure to be the longest and could be the most severe since WW II.”

December '74 *Time Magazine*
S&P 500, Two Years Later: +69.9%

“... The Dow Jones Industrial Average, battered by a protracted recession, a deepening erosion of corporate profits and anxieties that brokerage firms as well as banks are becoming increasingly vulnerable.”

Aug '82 *The New York Times*
S&P 500, Two Years Later: +52.7%

“There has been no shortage of crisis, with great attention being paid to the Iraqi invasion of Kuwait, the budget dead locked, the plight of banks and the plunging stock market.”

Oct '90 *The New York Times*
S&P 500, Two Years Later: +43.5%

“The World Bank warned that the global economy and global trade volumes would shrink for the first year since World War II. And Warren E. Buffett declared that the economy had ‘fallen off a cliff.’”

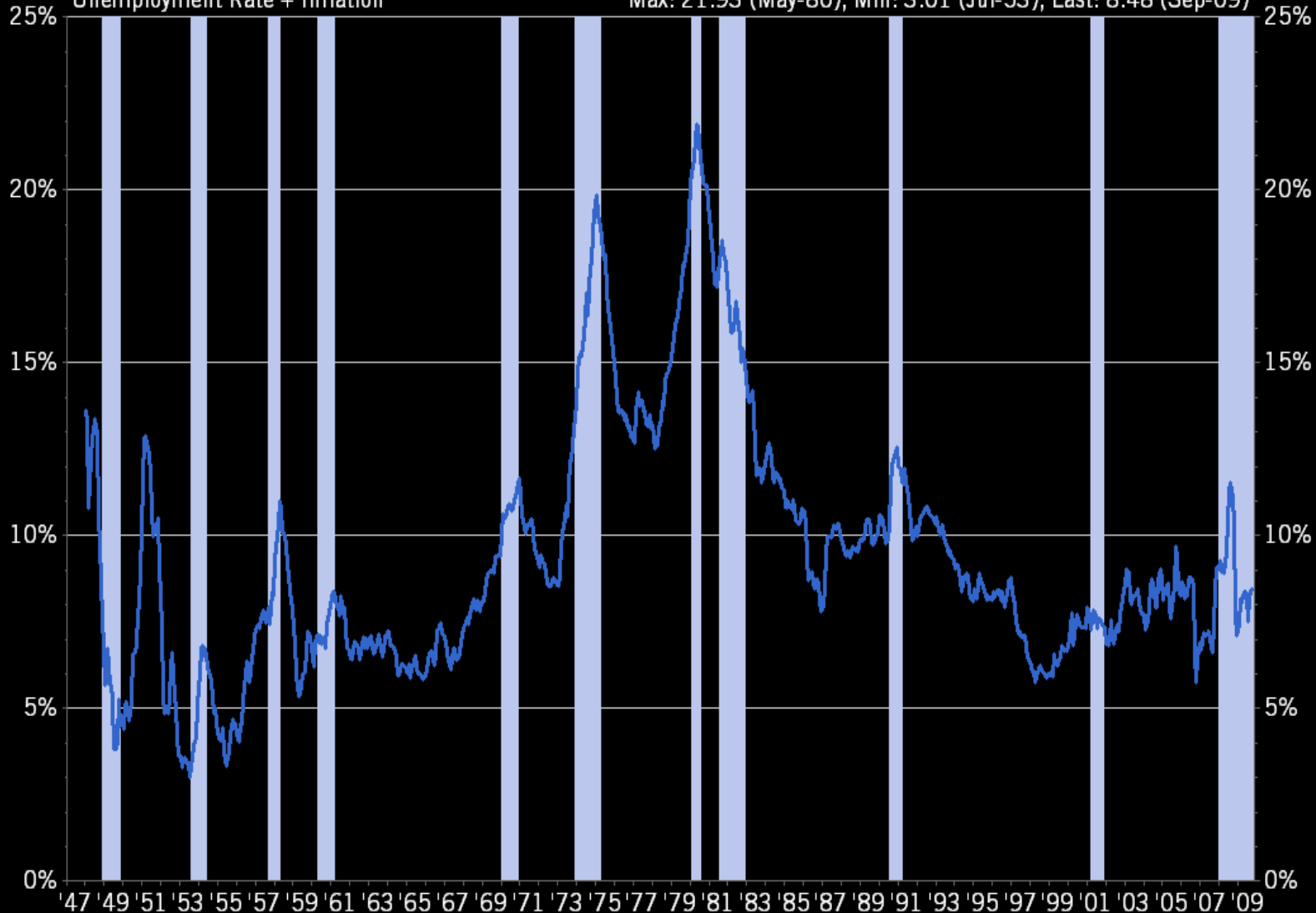
Mar 10 '09 *New York Times*
S&P 500, Six Months Later: +52.7%

...TRUE, BUT IT'S BEEN WORSE BEFORE...

US Misery Index

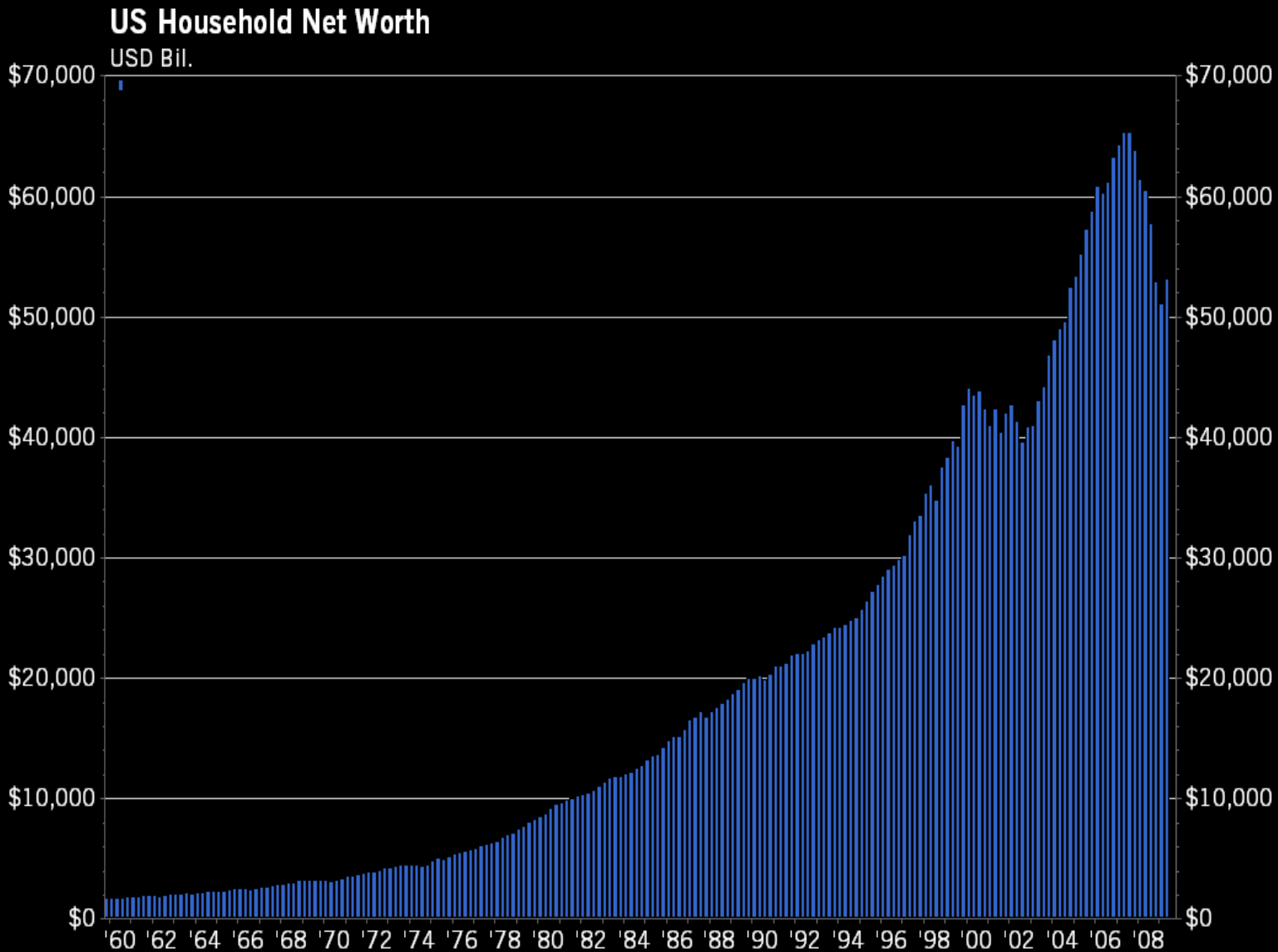
Unemployment Rate + Inflation

Max: 21.93 (May-80), Min: 3.01 (Jul-53), Last: 8.48 (Sep-09)



©FactSet Research Systems

...AND PLENTY OF WEALTH REMAINS

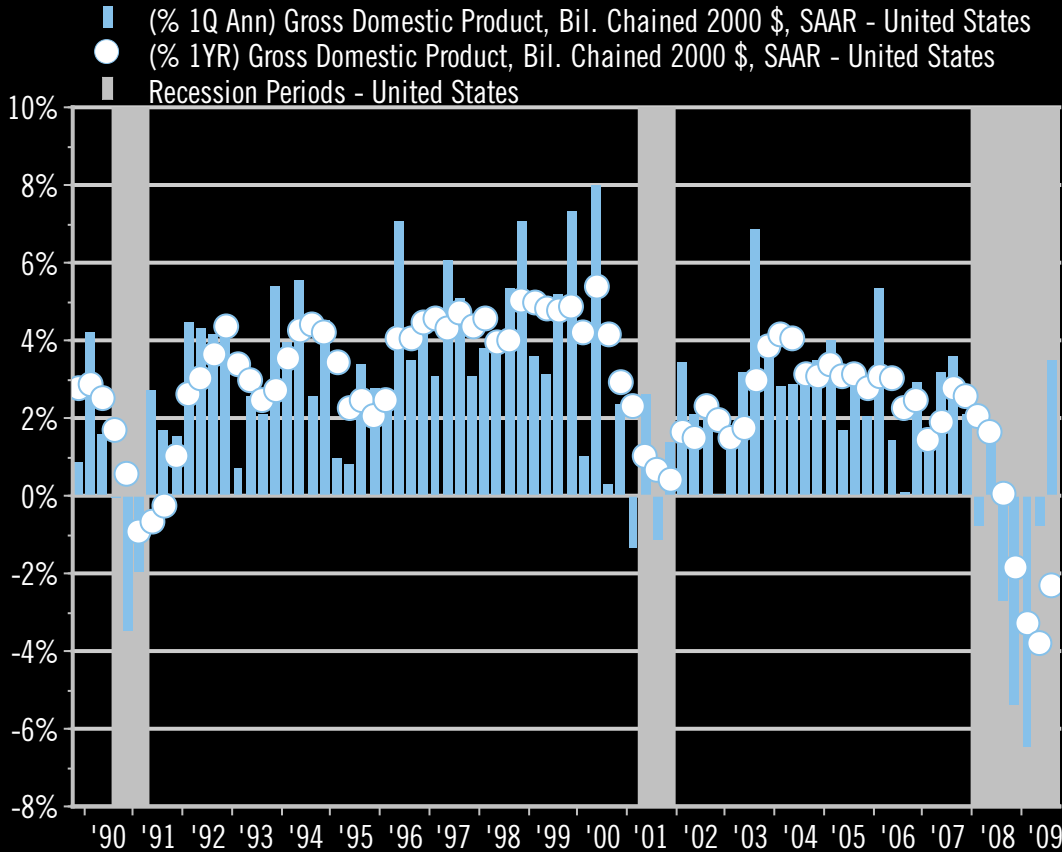


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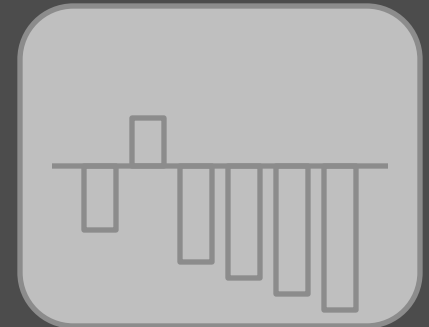
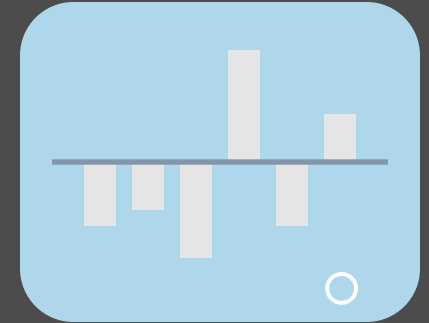
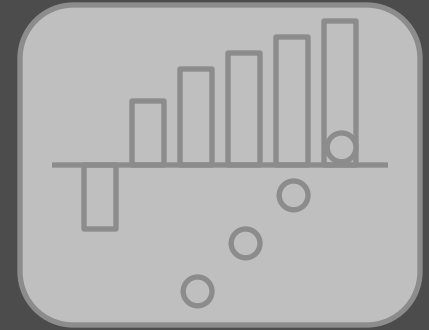
Where do We Think We are Headed?

ALPHABET SOUP—U,V OR W

US Real GDP Growth



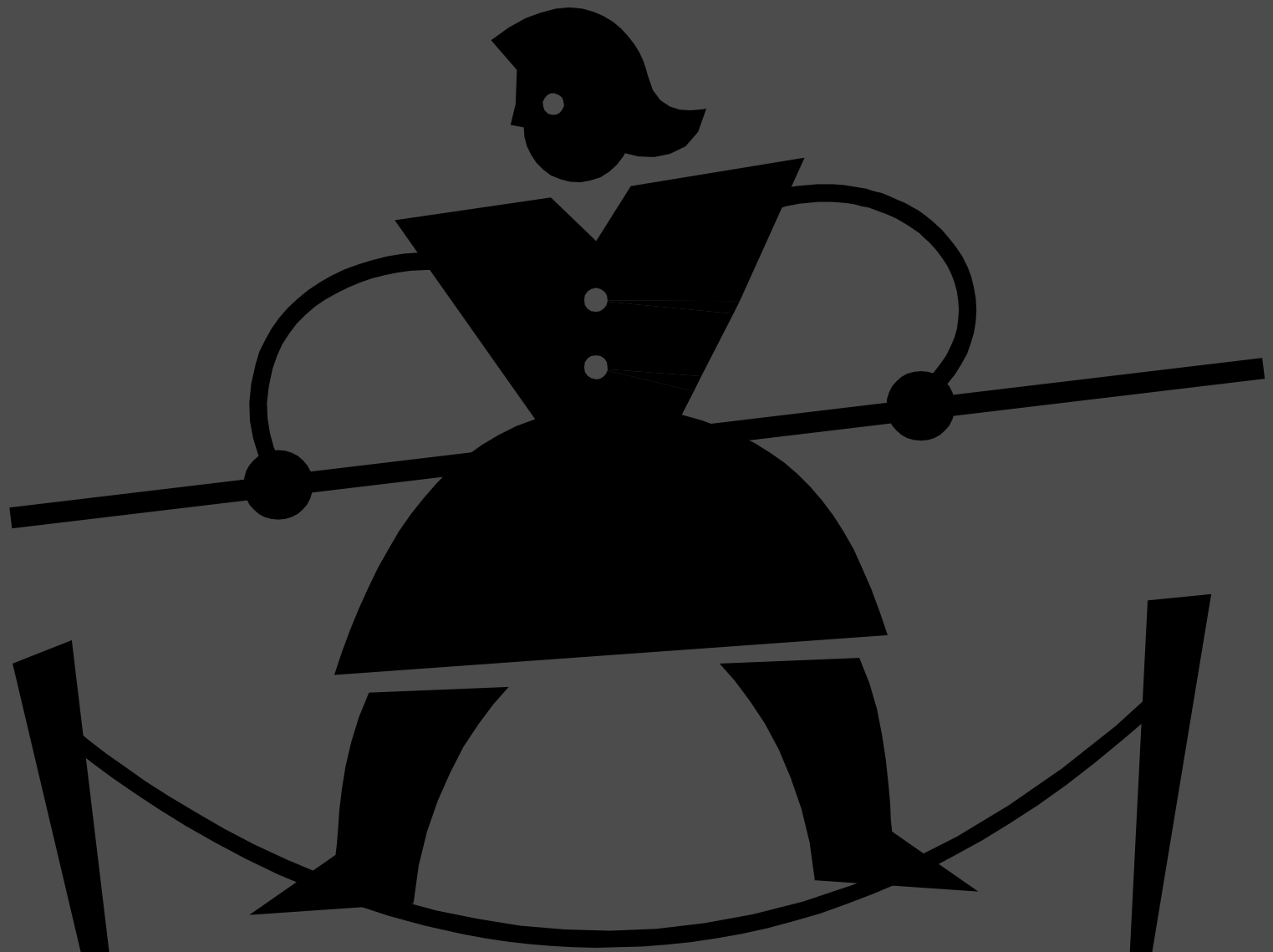
SOURCE: FactSet Research Systems





**THE PROGNOSIS IS
DECIDEDLY MIXED,
AND YET...**

**...WE REMAIN
OPTIMISTIC...FOR
THE LONG TERM...
AND SEE
OPPORTUNITY IN
THE MEANTIME.**



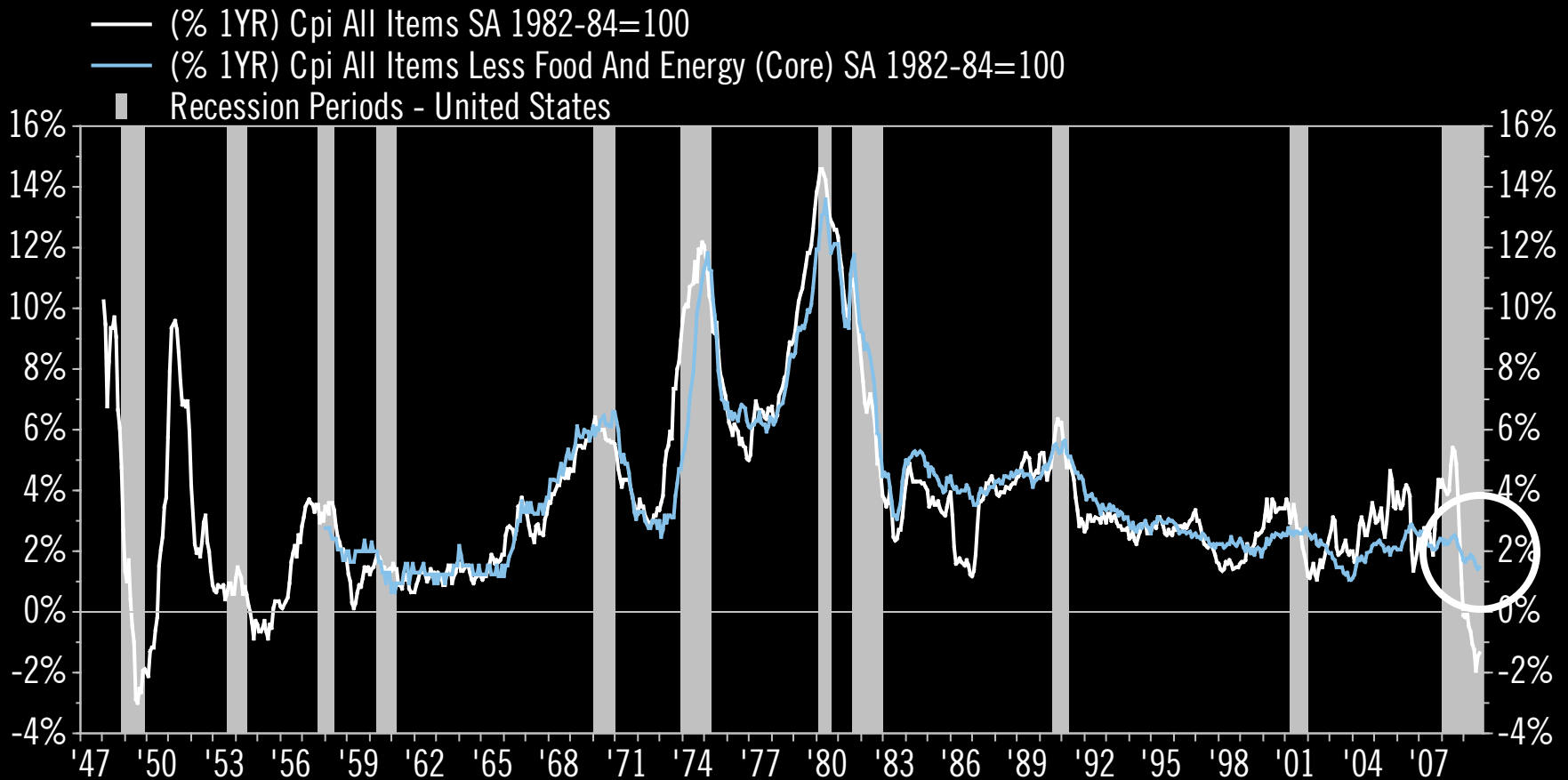
**THIS ACT, IN THE MEDIUM TERM, IS A
PRECARIOUS ONE: GREAT BALANCE IS
REQUIRED. ATTENTION...UNDIVIDED.**

MODEST INFLATION

Inflation remains the highest-level target. The focus of the Fed, of course, is making sure it's neither too high, nor too low.



US Consumer Price Inflation



SOURCE: FactSet Research Systems

FICKLE OIL

Volatile—read: unpredictable—commodity prices will flux inflation expectations and make inflation management that much more difficult.



WTI Crude Oil Spot Price (\$/barrel)

Max: 145.63 (11-JUL-08), Min: 10.25 (31-MAR-86), Last: 77.43 (06-NOV-09)



SOURCE: FactSet Research Systems

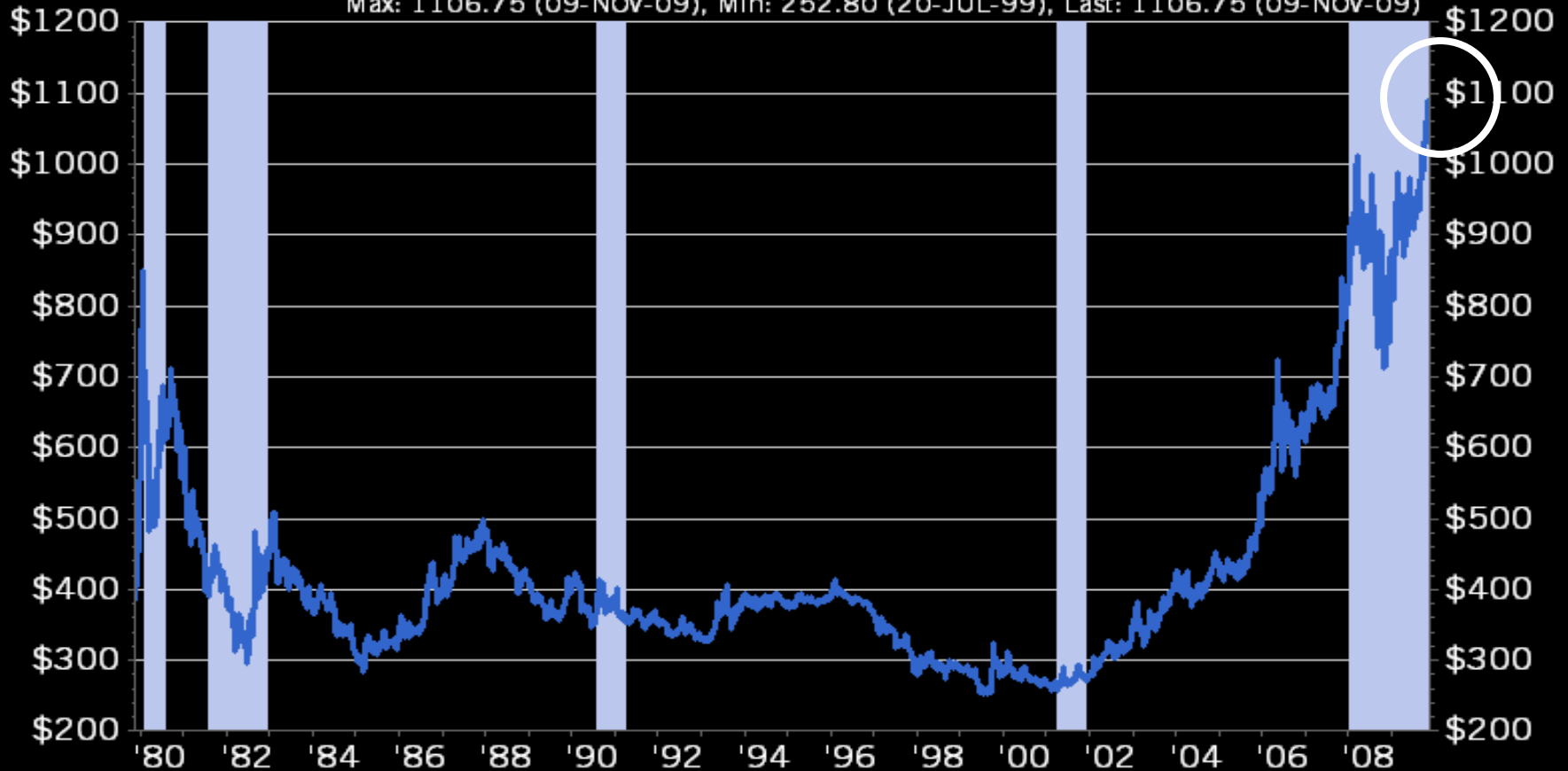
GLITTERY GOLD

'Ultimate' inflation hedge hits all-time high, though there is a long way to go to reach the inflation-adjusted high set back in 1980.



Gold (US\$/Troy Oz)

Max: 1106.75 (09-NOV-09), Min: 252.80 (20-JUL-99), Last: 1106.75 (09-NOV-09)

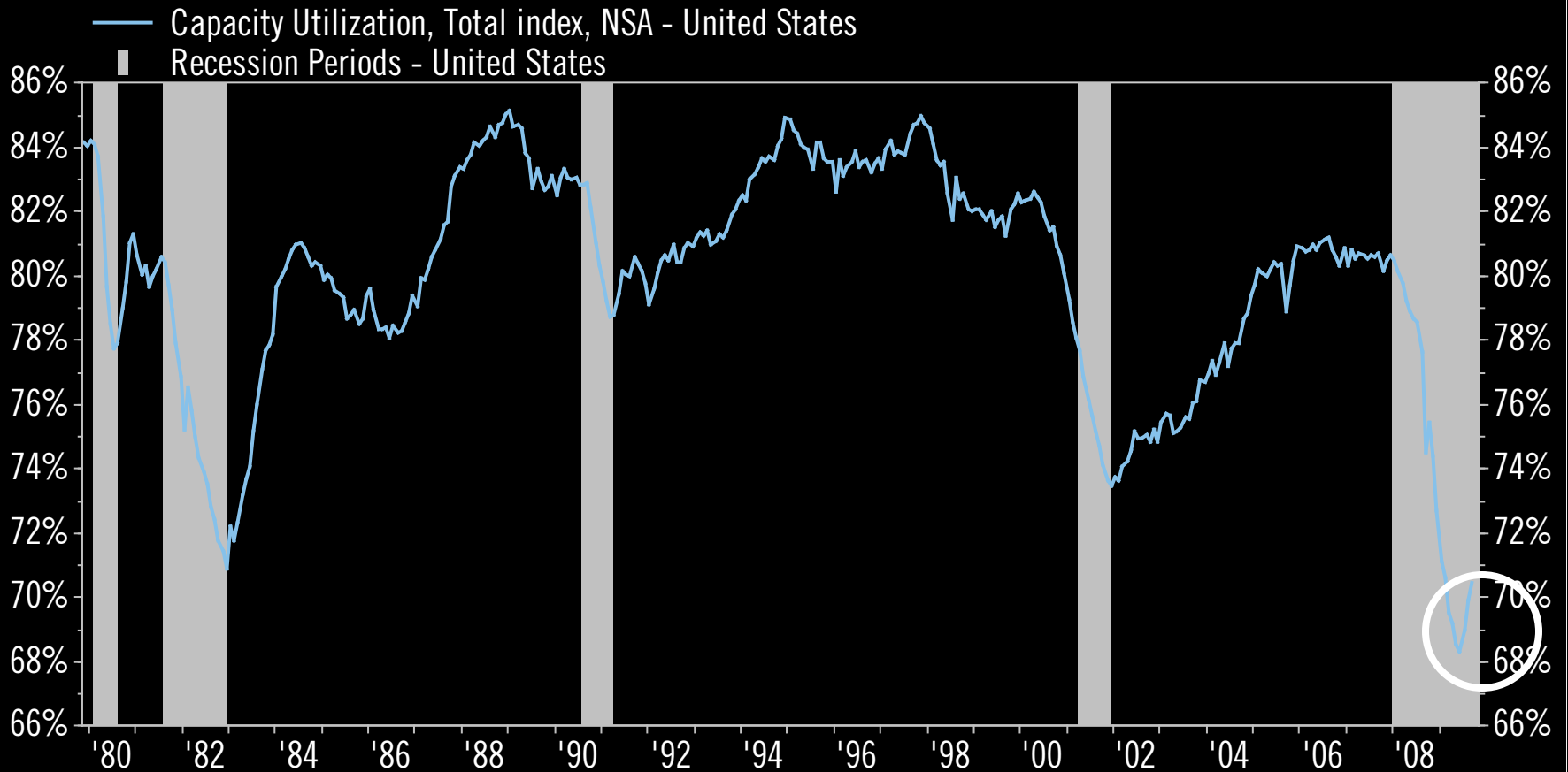


SLACK UTILIZATION

That there is so much extra capacity available should help keep prices low...but potentially leave profits weak as well.



US Capacity Utilization



SOURCE: FactSet Research Systems

ONEROUS UNEMPLOYMENT

And slack products has left a multitude out of work. Might expect at least 3 to 4 quarters of little progress, despite the 'get-ugly-early' management mindset.

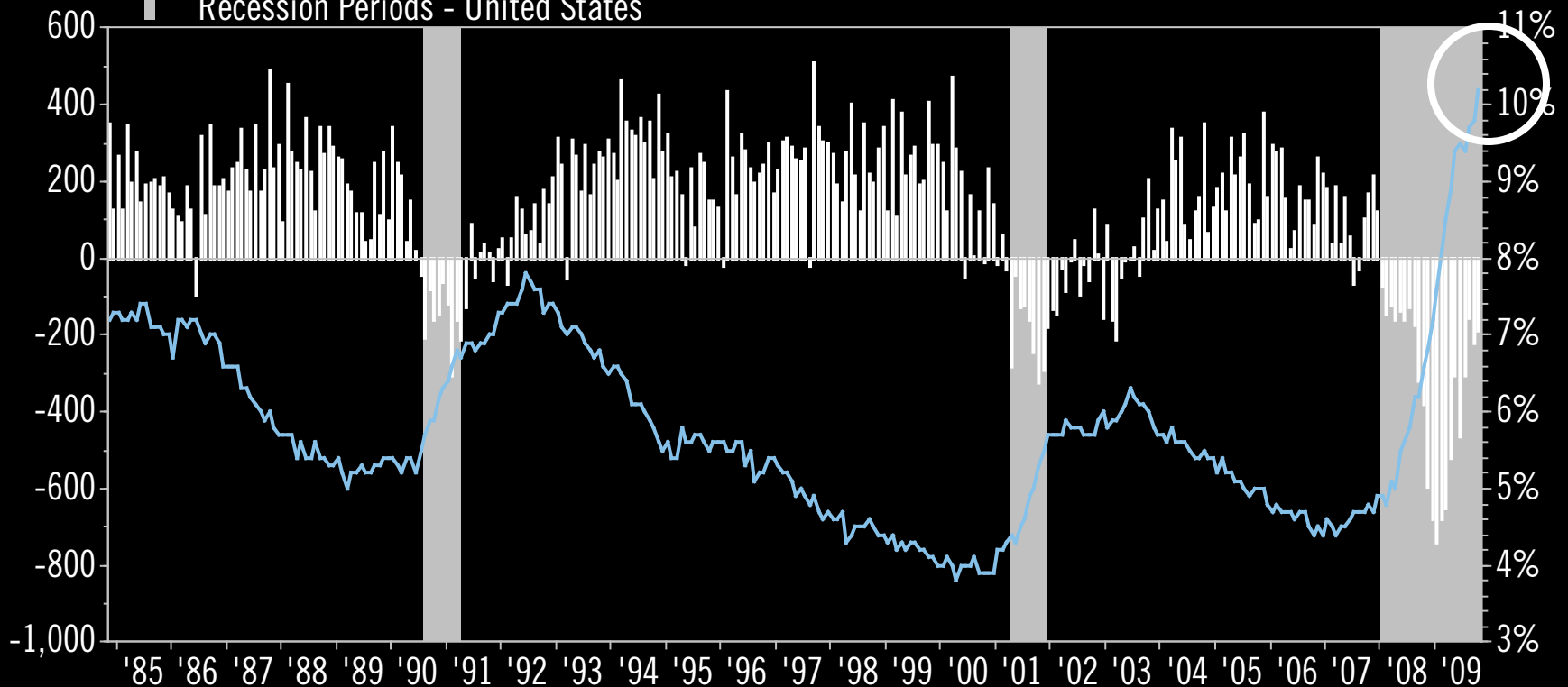


US Change in NonFarm Employment & Unemployment Rate

■ (DIFF 1M) All Employees, Thousands Total Nonfarm SA - United States (Left)

— Unemployment Rate - Percent, SA - United States (Right)

■ Recession Periods - United States



SOURCE: FactSet Research Systems

OVERWHELMING DEBT

A combination of that unemployment and burdensome debt makes for a still very cash-strapped consumer.

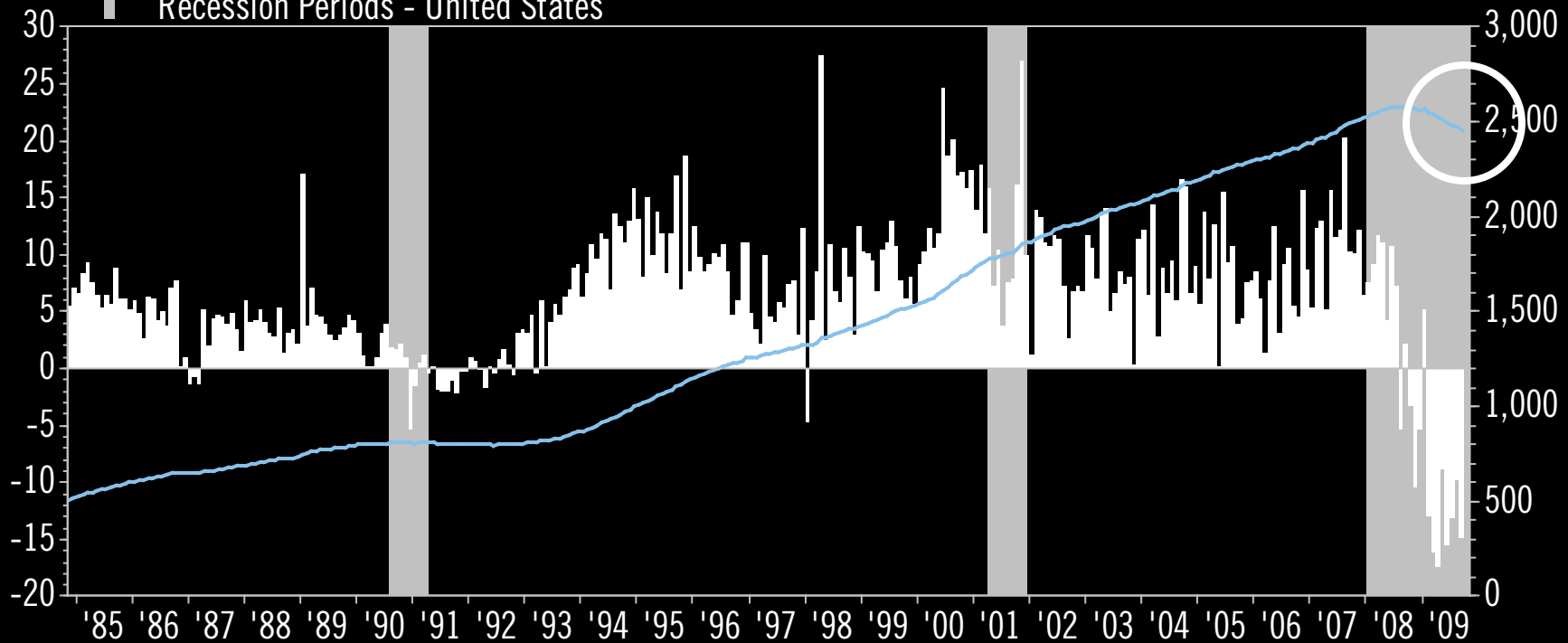


US Consumer Credit

Change vs Month Ago, USD Bil.

USD Bil.

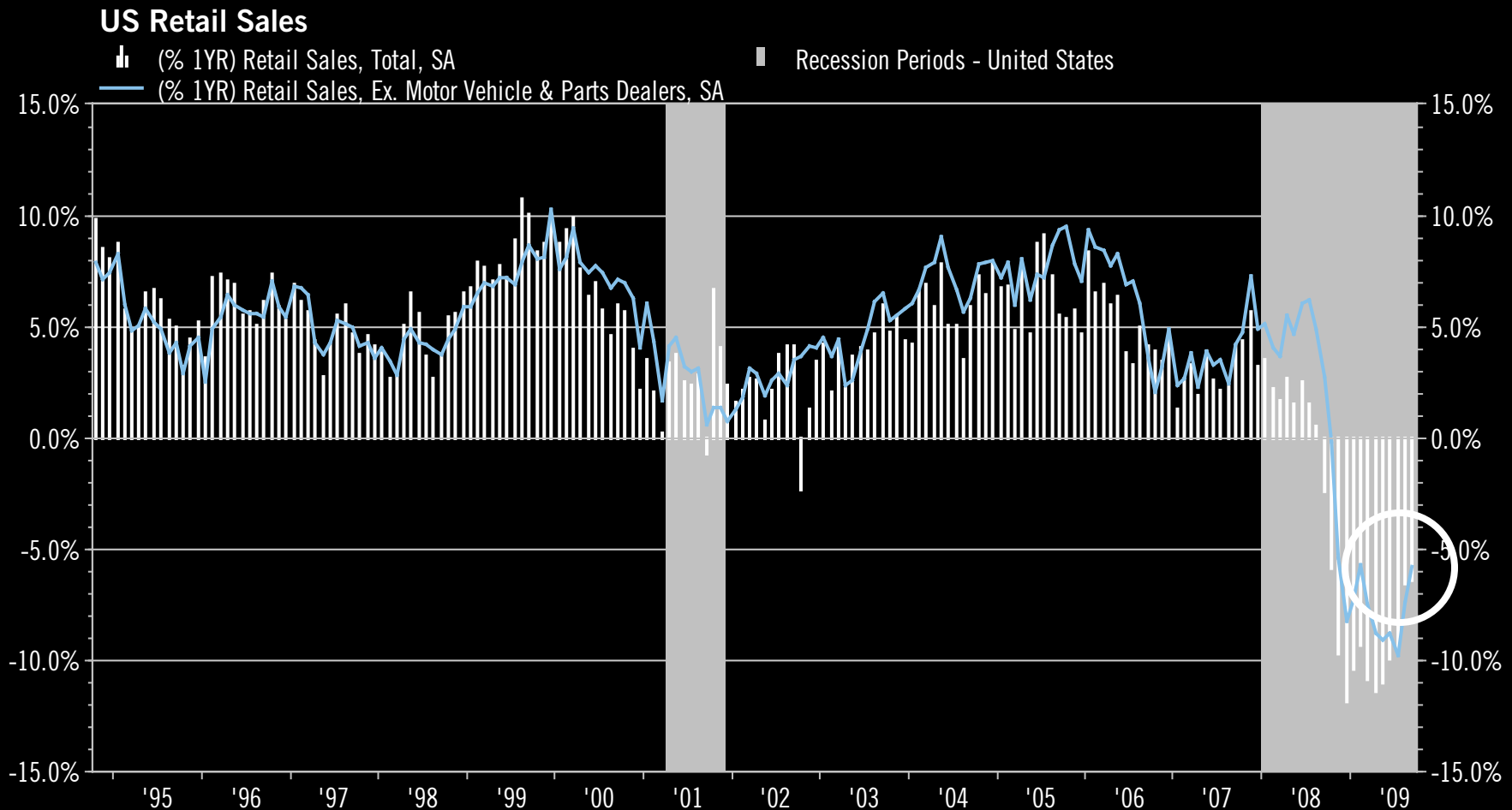
- (DIFF 1M) (Bil. \$) Consumer Credit Outstanding, Total, SA (Bil. Dollars) - United States (Left)
- (Bil. \$) Consumer Credit Outstanding, Total, SA (Bil. Dollars) - United States (Right)
- Recession Periods - United States



SOURCE: FactSet Research Systems

FEEBLE RETAIL SALES GROWTH

And so the consumer remains tight-fisted. Here, again, a necessary evil of deleveraging, but a near-term limitation of economic expansion...



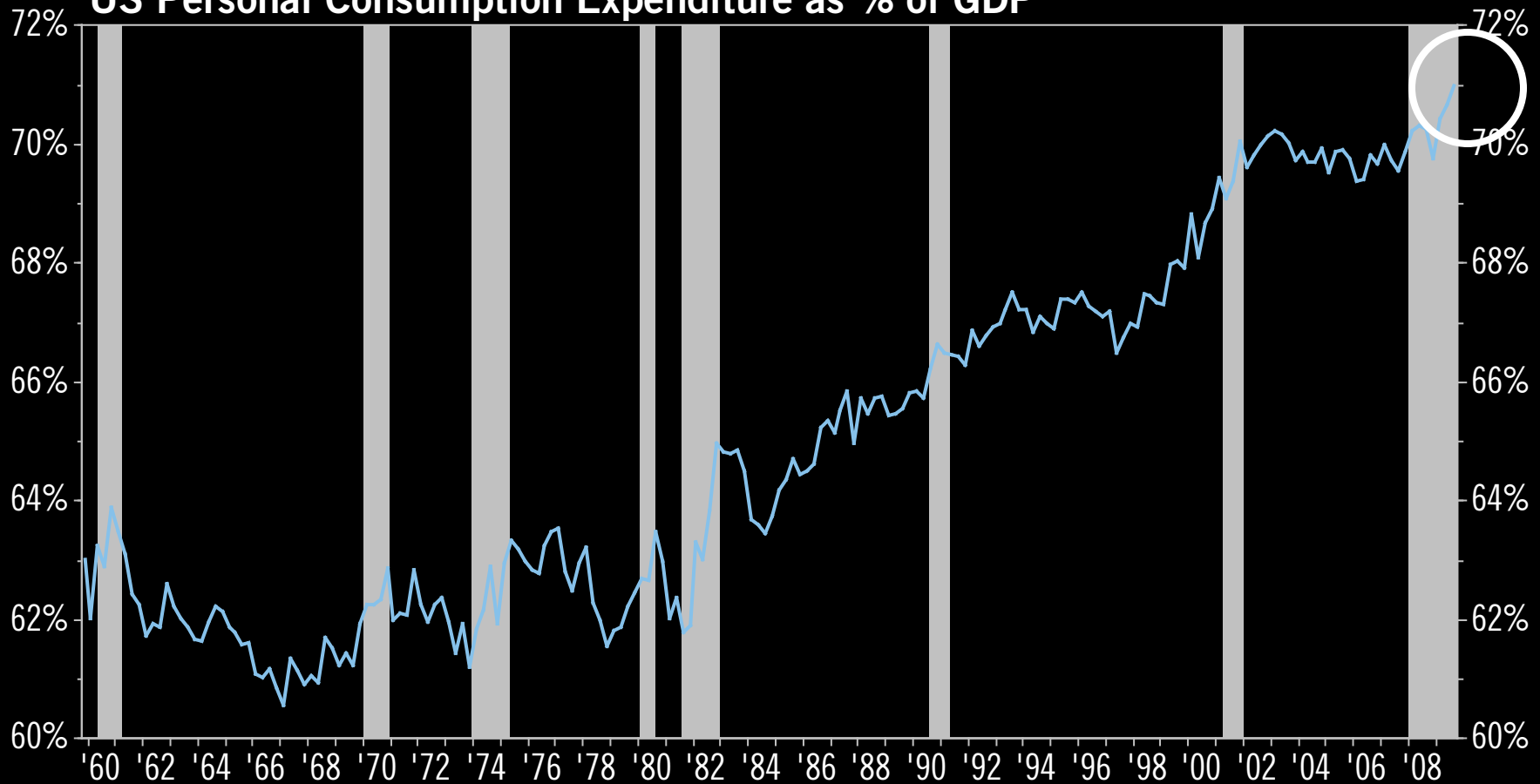
SOURCE FactSet Research Systems

WEIGHTY CONSUMER DEPENDENCE

...as we've become so dependent on the consumer for growth.



US Personal Consumption Expenditure as % of GDP



SOURCE: FactSet Research Systems

'Green shoots' are promising,
especially as we begin to see
positive *trends*.

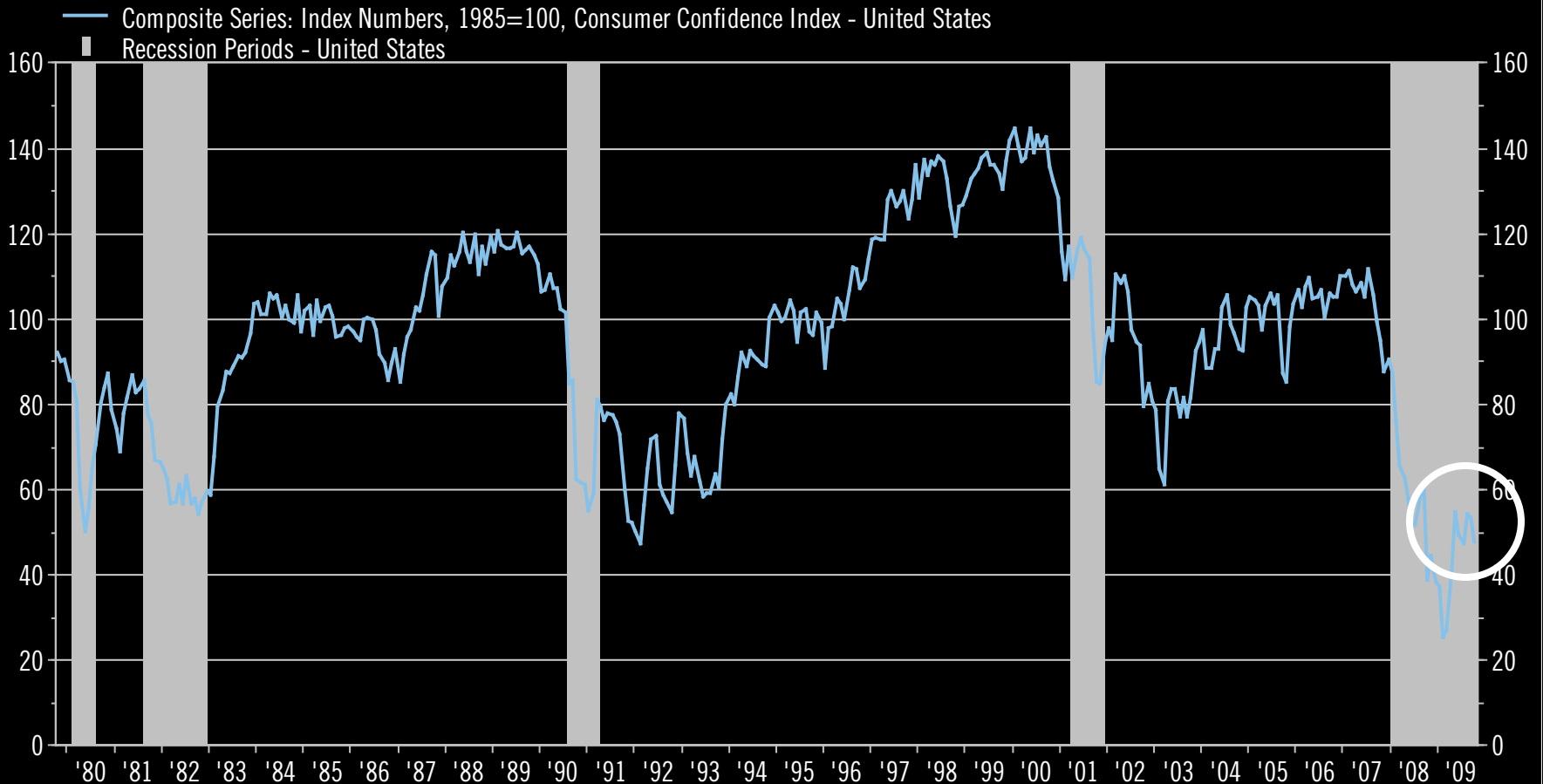


CONFIDENCE GAINING

Whether consumer or corporate, confidence shall prove essential to the resumption of growth.



US Consumer Confidence



SOURCE FactSet Research Systems

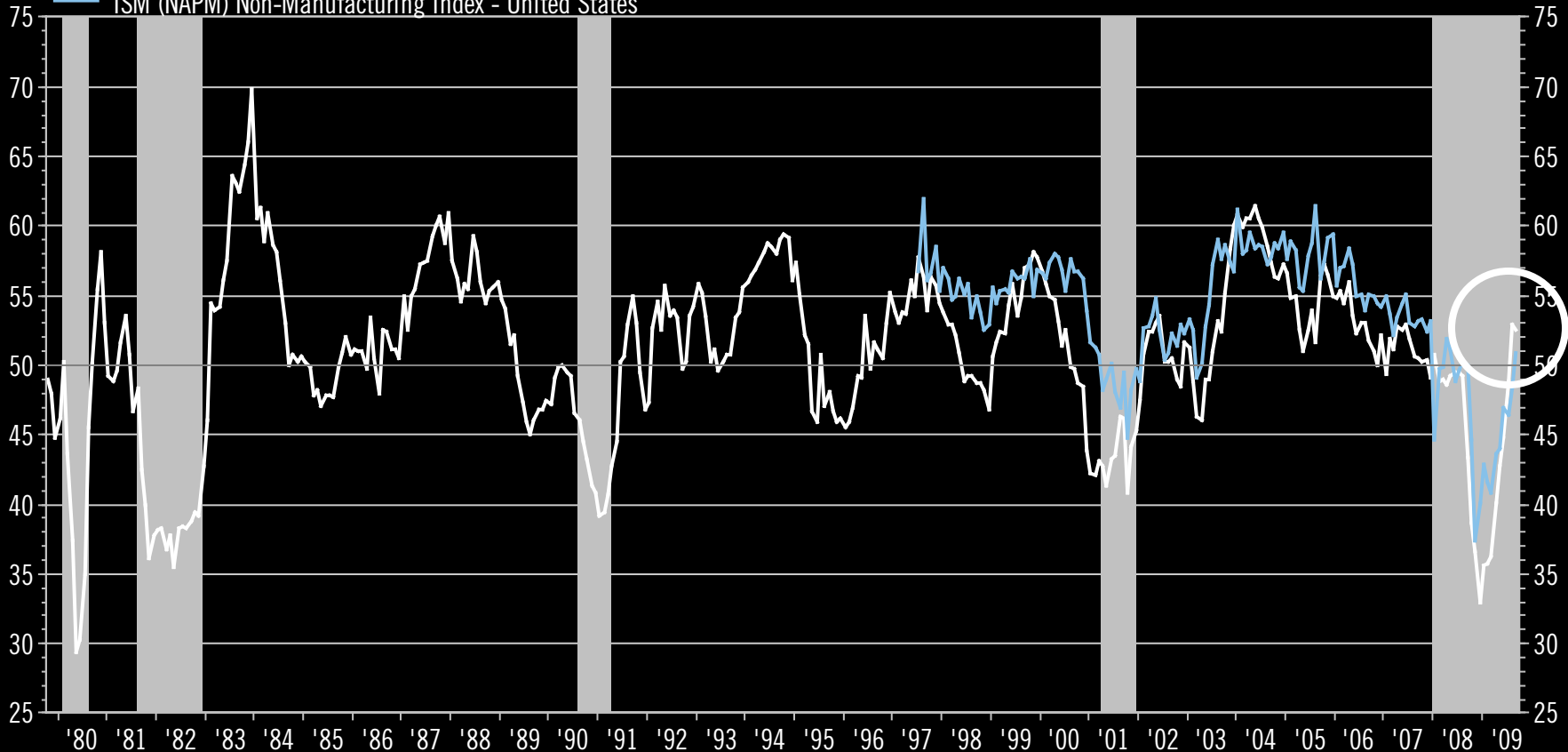
AWAKENING BUSINESS ACTIVITY

And we're seeing a bit. The manufacturing sector is back to expansion, though non-manufacturing still lags.



ISM Report on Business

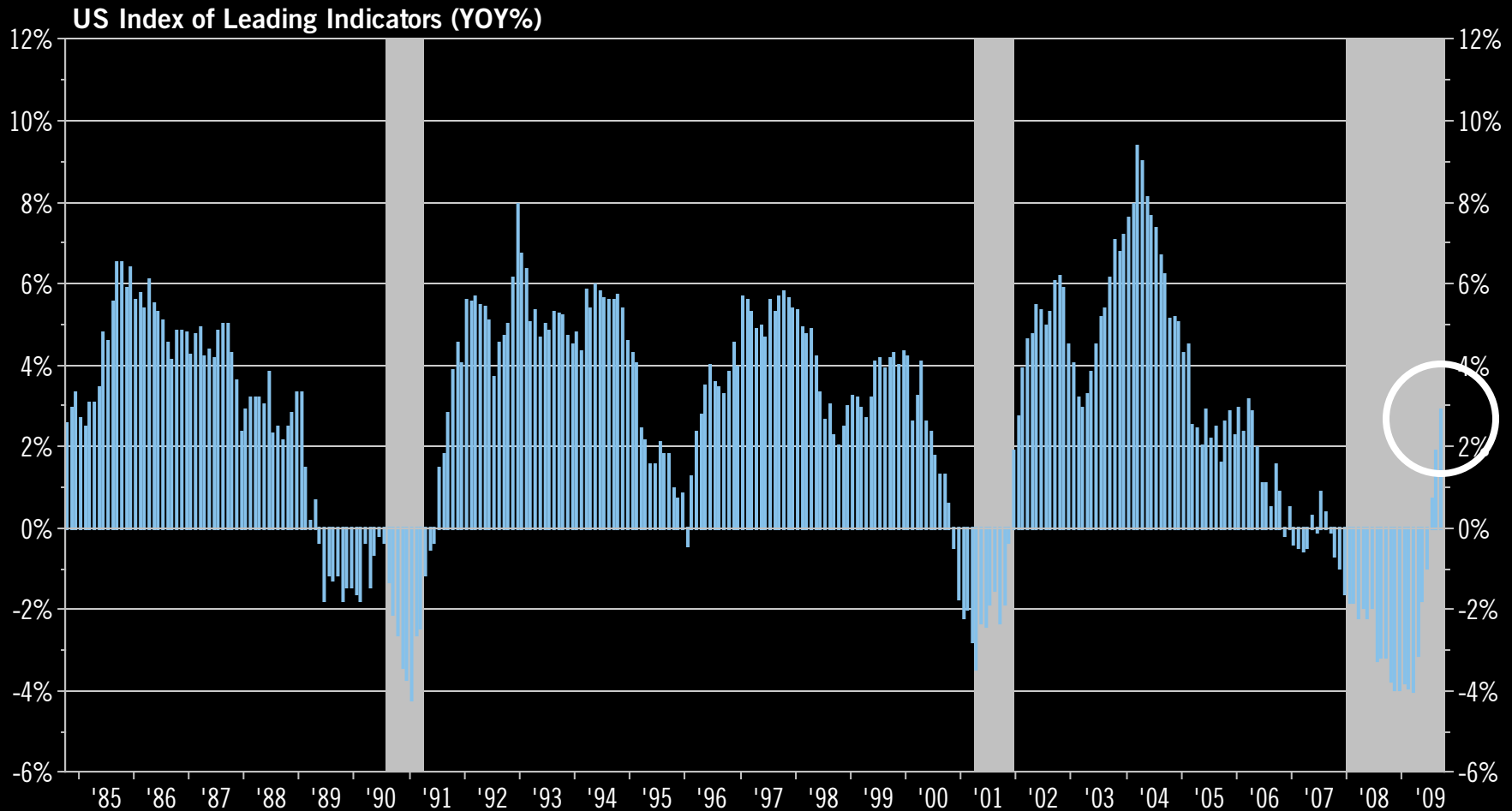
— ISM (NAPM) Purchasing Managers Index - United States ■ Recession Periods - United States
— ISM (NAPM) Non-Manufacturing Index - United States



SOURCE FactSet Research Systems

LEADING INDICATORS

And various other metrics suggest we're heading in the right direction...if only barely.



SOURCE FactSet Research Systems

OUR BELIEF IS THAT WE'LL GET THERE

Global Growth



Global engines of growth (e.g. China, Brazil, India) are humming. U.S. eventually will contribute.

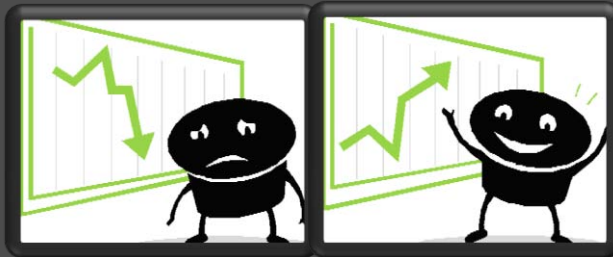
\$3.3 trillion are currently resting (0.04% average yield) in money market mutual funds¹, ready to participate in that growth.



Parked Wealth

MEANTIME...

Market Volatility

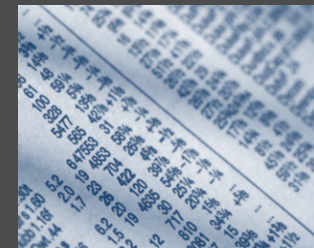


Ups/Downs create vast opportunity for more active approaches.

Market Review

HUGE REBOUND

Stocks have soared since the March lows.



Market-Cap Comparisons - Since March 9, 2009

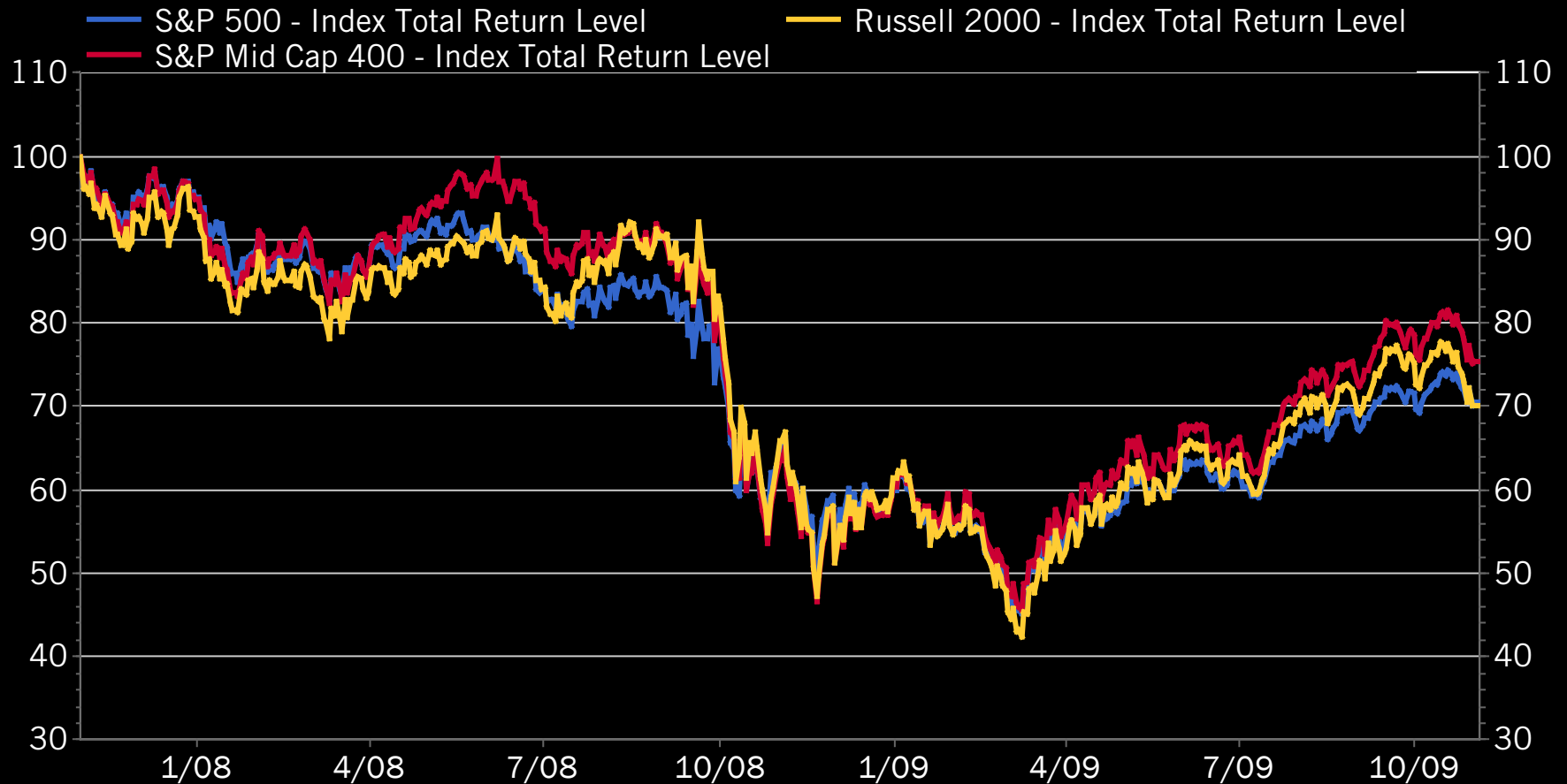


STILL A LONG WAY TO GO

Benchmarks remain well off the highs.

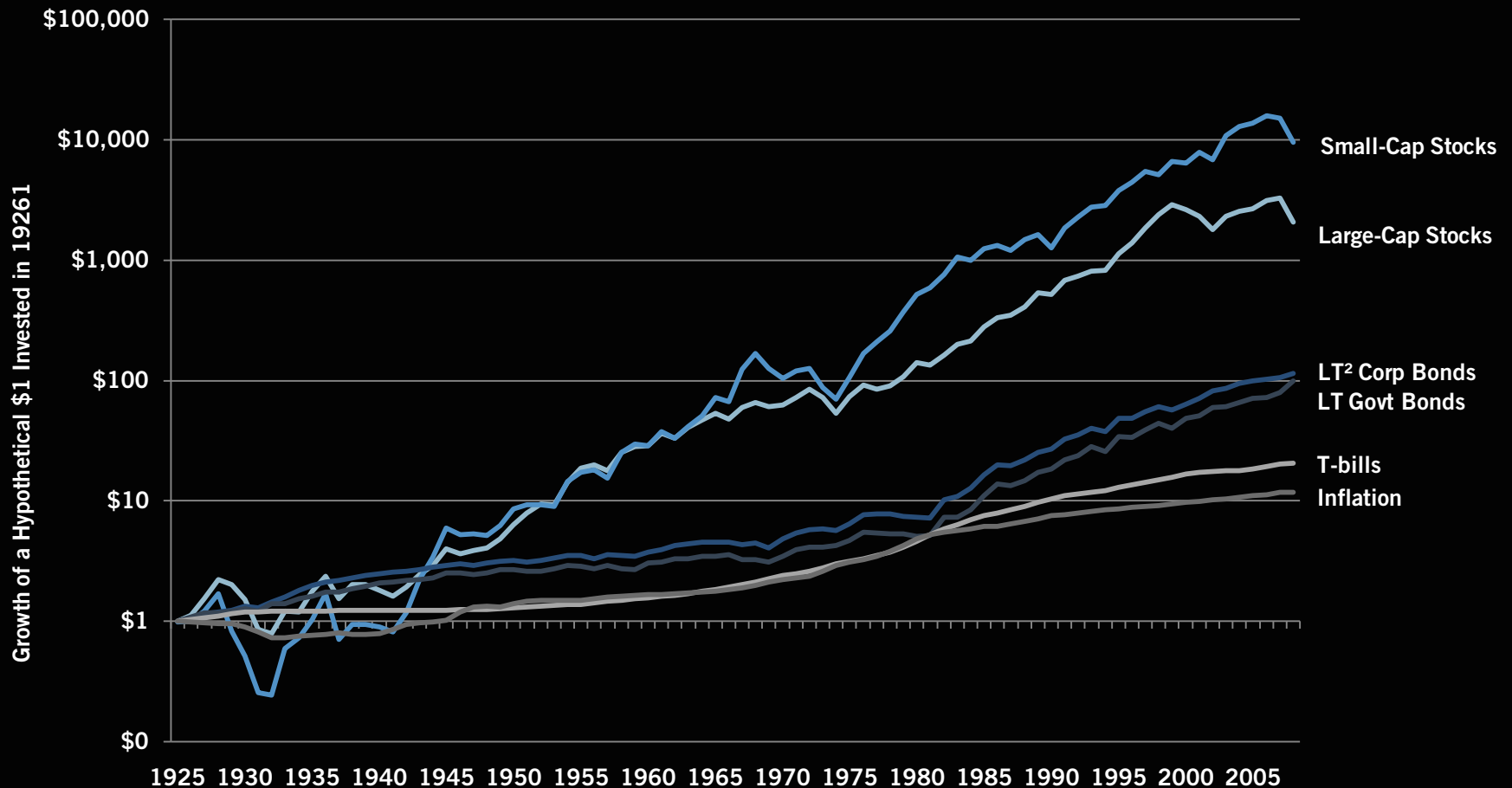
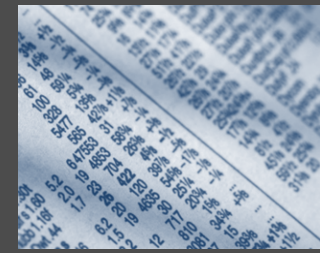


Market-Cap Comparisons - 2 Years



HISTORICAL EVIDENCE

Stocks have enjoyed returns of 9.6% to 11.7% per annum since 1926.

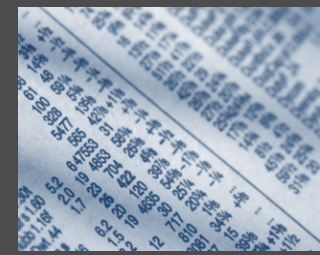


From December 31, 1927 through December 31, 2008, the date of the latest available data. Hypothetical investment assumes the reinvestment of dividends and capital gains. Past performance does not guarantee future results.

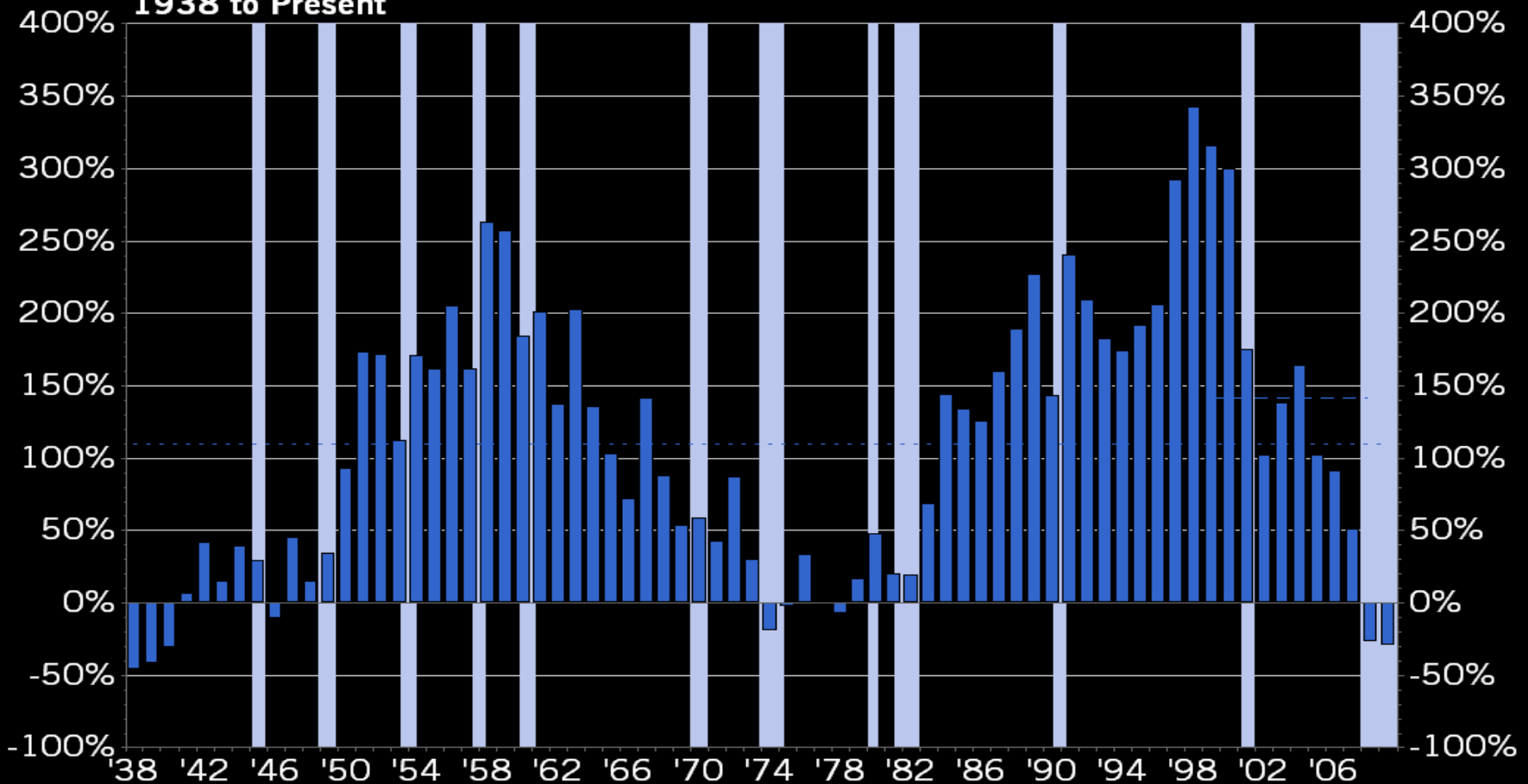
¹Logarithmic scale. SOURCE: Morningstar Stocks, Bonds, Bills and Inflation Classic Yearbook

LOST DECADE?

Certainly has been for the large-cap S&P 500.



**S&P 500 Rolling 10-Year Returns
1938 to Present**



LOST DECADE?

Hardly the case for other market-cap categories.

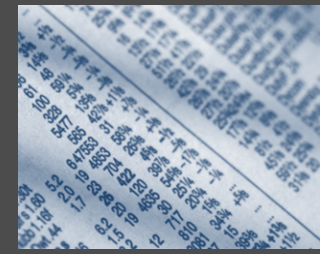


Market-Cap Comparisons

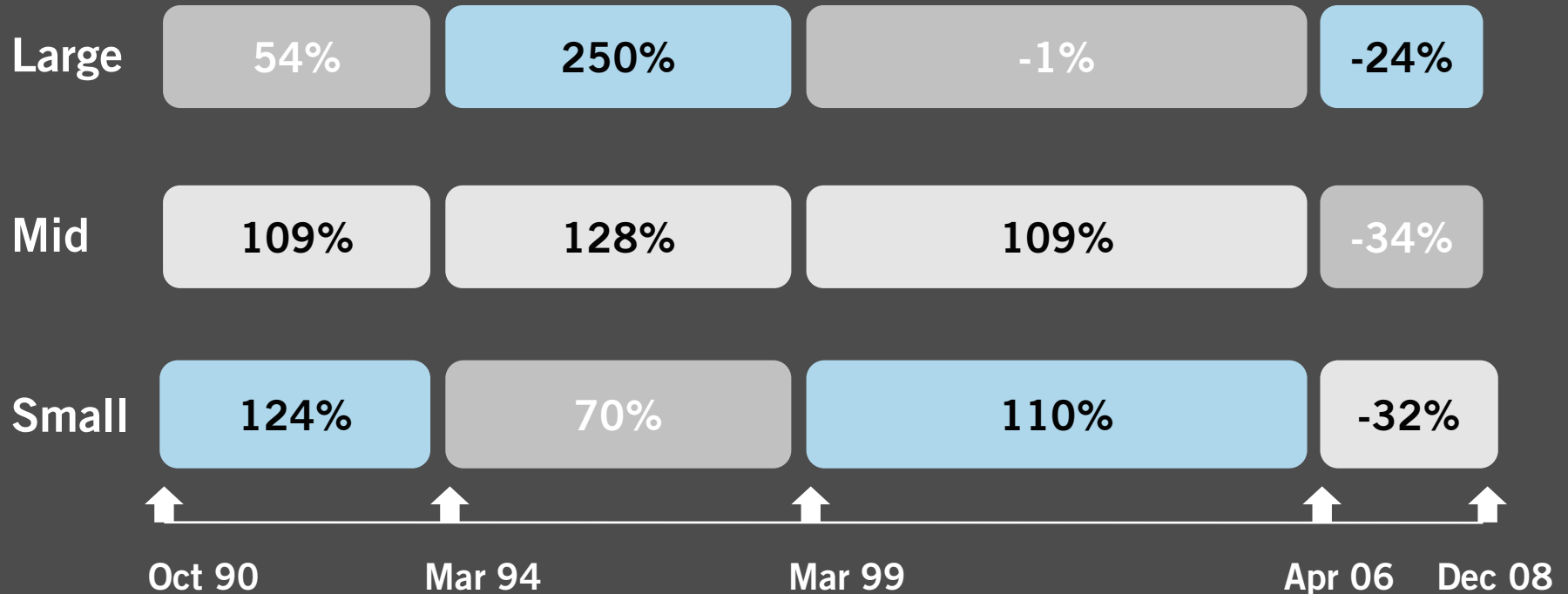


THE CASE FOR ALL-CAP

Opportunities have shifted over the past two decades.



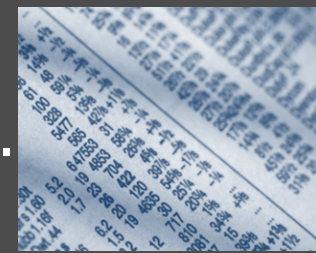
BUY AND HARVEST



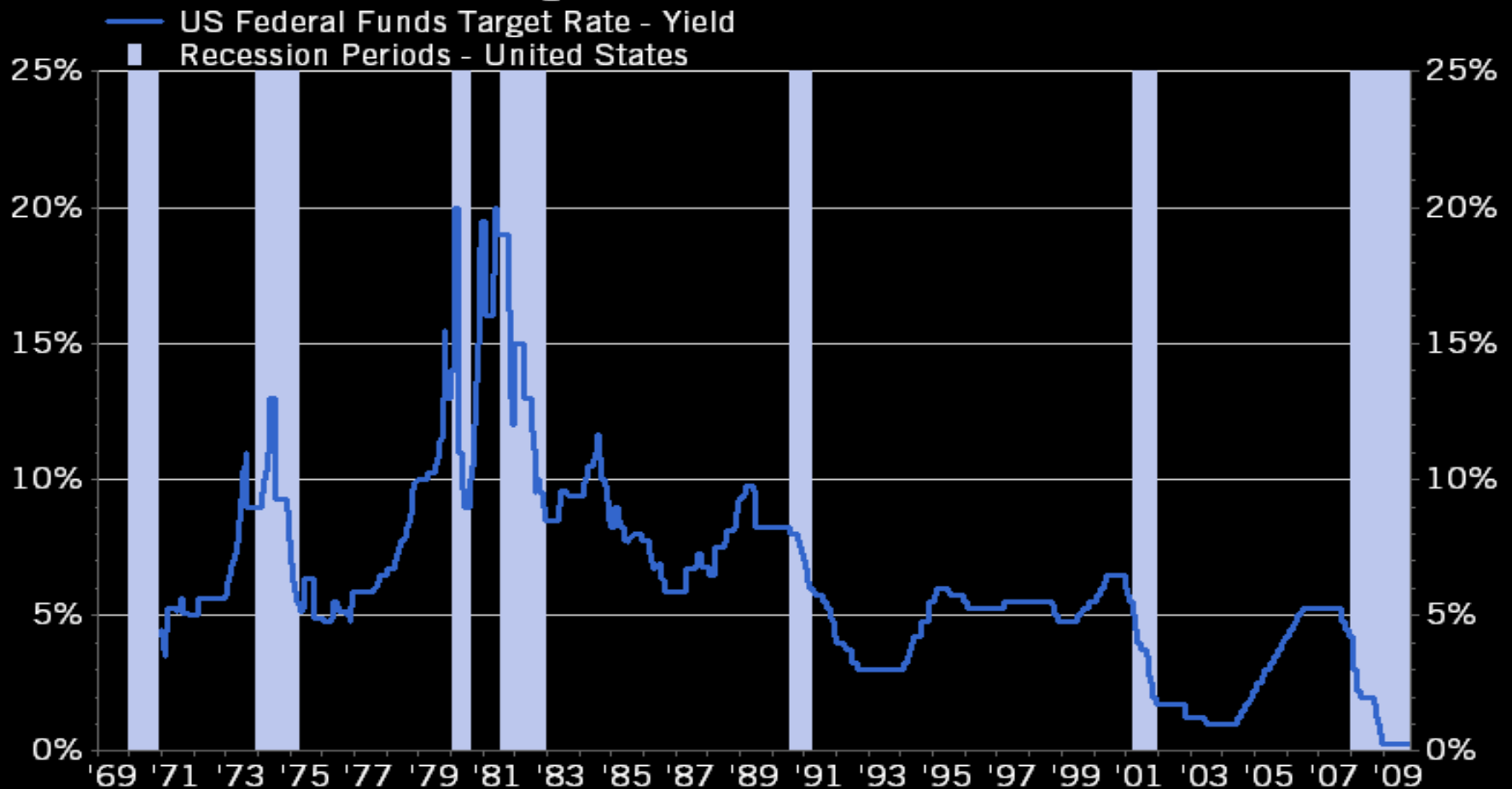
Market Outlook

FAVORABLE INTEREST RATE BACKDROP

Ben Bernanke & Co. have been highly accommodative.



US Federal Funds Target Rate



FAVORABLE INTEREST RATE BACKDROP

Generous dividend yields for equities.



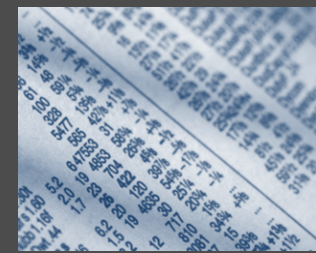
10-Year Treasury vs. Dividend Yield

— TRYUS10Y - Yield ■ Recession Periods - United States
— Russell 3000 - Dividend Yield



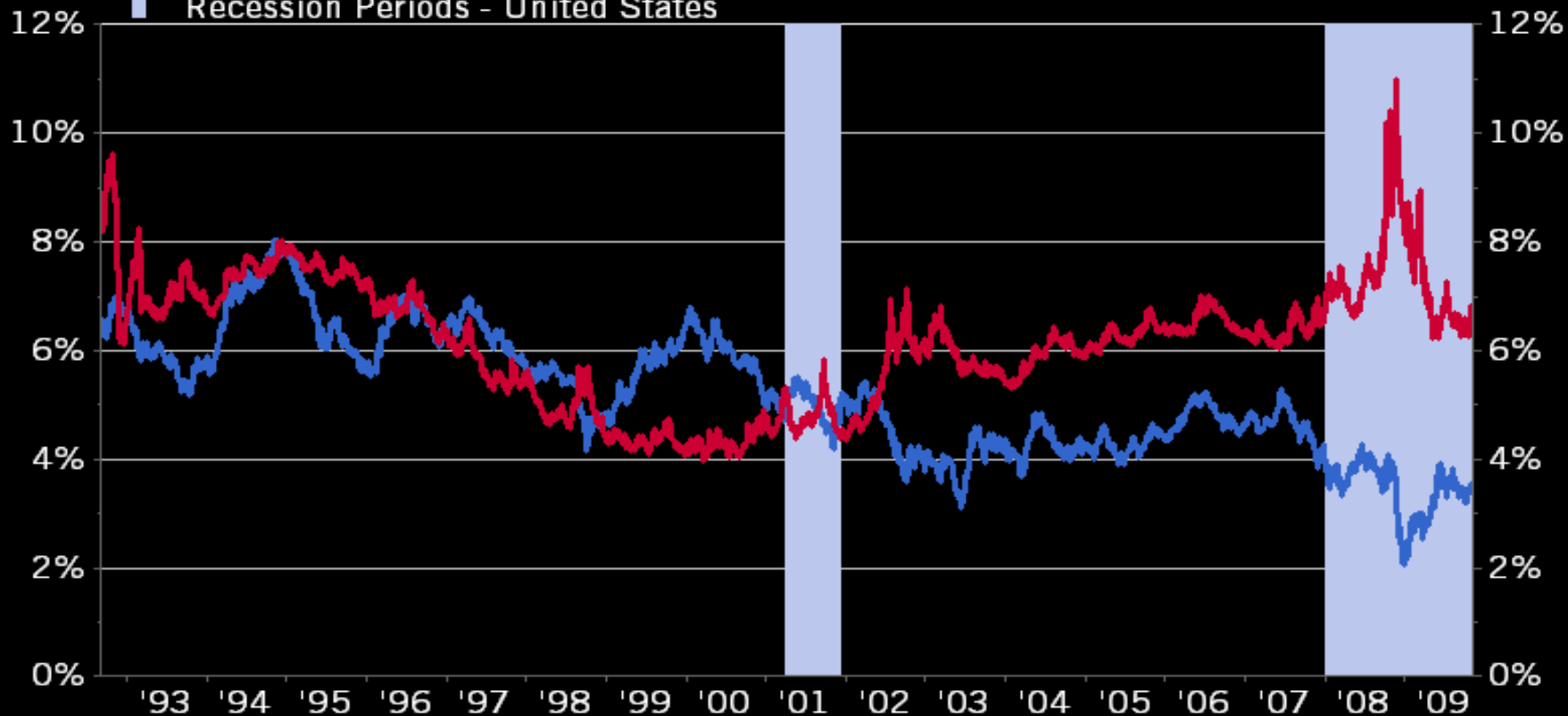
REASONABLE EQUITY VALUATIONS

'Fed Model' suggests stocks are still inexpensive.



10-Year Treasury vs. Earnings Yield

- TRYUS10Y - Yield
- 1 / Russell 3000 - Price to Earnings Ratio
- Recession Periods - United States



REASONABLE EQUITY VALUATIONS.

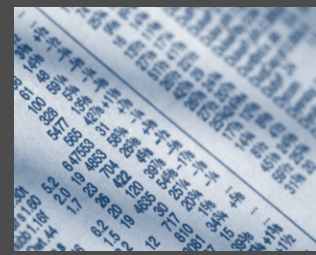
Expectations are still relatively subdued.



- 1) Yardeni Research says that EPS has topped analysts' estimates at 79.9% of the 89% of the companies in the S&P 500 index that have reported Q3 results. Actual results were 17.1% above forecasts. (*Wall Street Journal*, Nov. 9, 2009)
- 2) *Wall Street Journal* says the 500 largest non-financial U.S. firms held about \$994 billion in cash and short-term investments at the end of Q2, nearly double the percentage of cash vs. total assets maintained 20 years ago. (Nov. 2, 2009)
- 3) Elevated worker productivity and cost cutting aiding bottom lines.
- 4) Earnings comparisons become favorable in Q4. Little in the way of revenue growth priced in.
- 5) M&A activity picking up

WEAK INVESTOR SENTIMENT

Mixed on what they are saying, very clear on what they are doing.



- 1) AAI Bull/Bear Survey—33% more Bears than Bulls vs. a 'norm' of 9% more bulls than bears. Now at a level seen at market bottoms in 1990, 2002, 2002 & 2009.
- 2) Morningstar says September actually saw a net \$3.1 billion leave domestic stock funds. By way of comparison, \$96 billion flowed out of U.S. stock funds in 2008, so fund investors have been fickle for quite a while.
- 3) ICI says a net \$17.2 billion left domestic equity funds over the five weeks ended October 28.
- 4) Hewitt Associates says 401(k) participants have shifted only 1% of total assets from fixed income to equity investments since April 2009. On the other hand, 6% of assets transferred from equities to fixed income between January 2008 and March 2009.

Current Positioning

STOCK PICKING MATTERS

Historically speaking, a rising tide does not lift all boats.



	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Advancing Stocks	373	1,250	2,792	1,642	2,358	3,155	1,793	2,370	2,337	1,432	1,850
Declining Stocks	3,961	2,369	845	2,008	1,235	401	2,118	1,569	1,623	2,727	2,360
NYSE Composite	-41%	7%	18%	7%	13%	29%	-20%	-10%	1%	9%	17%
S&P 500	-38%	4%	14%	3%	9%	26%	-23%	-13%	-10%	20%	27%

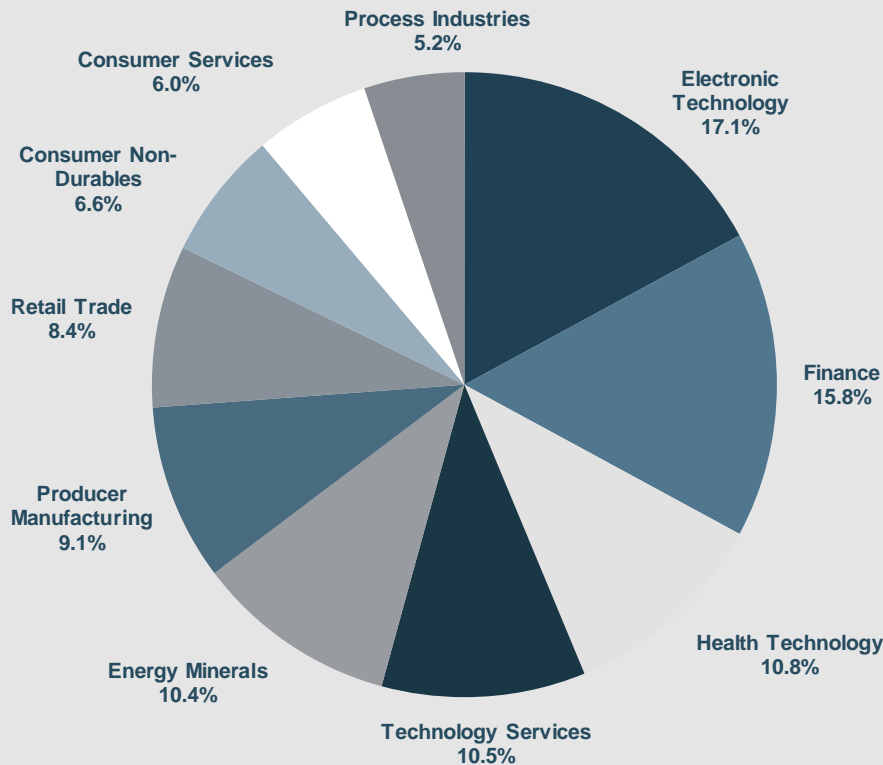
The NYSE Composite measures all common stocks listed on the New York Stock Exchange and four subgroup indexes: Industrial, Transportation, Utility and Finance. Past performance does not guarantee future results. SOURCE: The Walls Street Journal

CURRENT POSITIONING

Undervalued stocks available in all cap-strata, but recent bias has been toward larger stocks—less volatile, multinational dividend payers.



Percentage of Equity Holdings

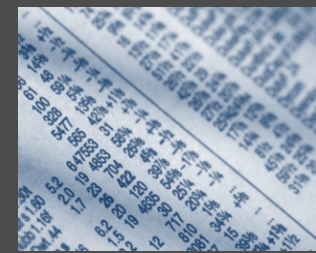


Market Capitalization Breakout

Mega (\$50 billion and above)	24%
Large (\$10 billion to \$50 billion)	33%
Medium (\$2.0 billion to \$10 billion)	22%
Small (less than \$2.0 billion)	21%
Median	\$15.3 billion
Weighted Average	\$39.6 billion
Top Ten Holdings %	17.8%

CURRENT POSITIONING

Undervalued stocks available in all cap-strata, but recent bias has been toward larger stocks—less volatile, multinational dividend payers.



<i>Prudent Speculator Favorites</i>										
			11/10/09	Target	Price Multiples			Debt/	Div	Mkt
Sector	Ticker	Company	Price	Price	EPS	S	TBV	TE (%)	Yld	Cap
Communications	VZ	Verizon Communications Inc.	30.31	41.70	12.5	0.8	nmf	125	6.3%	86,100
Consumer Durables	FO	Fortune Brands Inc.	41.09	67.36	16.8	1.0	nmf	101	1.8%	6,178
	HAS	Hasbro Inc.	28.81	43.15	14.3	1.0	11.6	52	2.8%	4,030
Consumer Non-Durable	CALM	Cal-Maine Foods Inc.	27.14	50.05	10.1	0.7	2.0	40	3.5%	646
	PM	Philip Morris International Inc.	49.83	66.99	15.5	2.8	nmf	159	4.6%	95,244
Consumer Services	TRK	Speedway Motorsports Inc.	15.82	30.38	7.8	1.1	2.3	78	2.3%	672
Electronic Technology	GLW	Corning Inc.	15.80	29.92	15.2	5.0	1.1	12	1.3%	24,490
	INTC	Intel Corp.	19.50	29.60	29.0	3.3	2.3	5	3.2%	107,640
	RTN	Raytheon Co.	48.36	81.96	10.5	0.6	nmf	25	2.6%	13,638
Energy Minerals	MRO	Marathon Oil Corp.	34.94	61.75	12.8	0.5	1.0	34	2.7%	24,738
Finance	BK	Bank of New York Mellon Corp.	26.88	47.86	9.8	2.2	12.1	85	1.3%	32,370
	JPM	JPMorgan Chase & Co.	44.17	59.21	28.1	1.5	1.6	380	0.5%	173,975
	TRV	Travelers Cos. Inc.	53.93	83.45	9.3	1.2	1.2	24	2.2%	29,548

CURRENT POSITIONING

Undervalued stocks available in all cap-strata, but recent bias has been toward larger stocks—less volatile, multinational dividend payers.



<i>Prudent Speculator Favorites</i>										
			11/10/09	Target	Price Multiples			Debt/	Div	Mkt
Sector	Ticker	Company	Price	Price	EPS	S	TBV	TE (%)	Yld	Cap
Health Technology	ABT	Abbott Laboratories	52.80	85.84	14.7	2.7	35.4	71	3.0%	81,624
	BMJ	Bristol-Myers Squibb Co.	23.34	37.73	11.6	2.2	7.3	55	5.3%	46,120
Industrial Services	DO	Diamond Offshore Drilling Inc.	100.52	149.74	10.0	3.8	2.4	15	0.5%	13,973
Non-Energy Minerals	NUE	Nucor Corp.	40.75	67.76	-51.6	1.0	2.8	42	3.4%	12,823
Process Industries	MON	Monsanto Co.	73.66	113.63	17.3	3.4	8.9	20	1.4%	40,175
Producer Manufacturin	MMM	3M Co.	77.99	97.82	17.9	2.5	14.6	69	2.6%	55,214
Retail Trade	KR	Kroger Co.	23.69	38.07	12.0	0.2	5.3	163	1.6%	15,304
	WMT	Wal-Mart Stores Inc.	52.31	81.70	15.2	0.5	3.9	67	2.1%	201,751
Technology Services	MSFT	Microsoft Corp.	29.01	39.72	17.9	4.6	8.6	6	1.8%	258,189
	UNTD	United Online Inc.	8.34	15.60	6.4	0.7	nmf	120	4.8%	703
Transportation	TNP	Tsakos Energy Navigation Ltd.	15.30	32.80	7.8	0.9	0.7	166	3.9%	568
Utilities	EIX	Edison International	34.19	56.25	10.3	0.9	1.1	129	3.6%	11,139



AI Frank
ASSET MANAGEMENT

Contact Information

For additional info about *The Prudent Speculator* newsletter or the asset management services AI Frank Asset Management offers, kindly email **TPS@alfrank.com** or call **888.994.6837**.



Disclosures

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The Dow Jones Industrial Average Index, also referred to as the Dow, is computed from the stock prices of thirty of the largest and most widely held public companies in the United States.

The S&P 500 Stock Index is generally representative of the U.S. Stock Market, without regard to company size. The S&P Mid-Cap 400 is a widely used index for mid-sized companies.

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The indices are unmanaged and cannot be purchased directly by investors.

Disclosures cont.

A newsletter's Hulbert Financial Digest's Ranking is based on an average of its several portfolios in the event it recommends more than one (and includes portfolios that the letters have discontinued). Through 09.30.09, The Prudent Speculator is ranked #1* out of 66, 43 and 21 newsletters monitored for 15, 20 and 25 years, respectively. Hulbert currently monitors over 160 investment newsletters. For more information about The Hulbert Financial Digest, go to hulbertdigest.com. Each investment decision you make should be determined with reference to the specific information available for such investment, and not based upon the success of past recommendations.

Previous, successful recommendations may not be indicative of the results for all recommendations. Certain previous recommendations have not resulted in profit, and in fact have resulted in losses. Of the 1,731 stocks recommended in The Prudent Speculator since 3/10/77 through 9/30/09, 60.25% were sold or otherwise closed out at a profit or are presently in a profit position if not closed out. The average holding period for each of our recommendations has been 6.14 years and they have shown an average annualized rate of return of +16.55%, not including dividend reinvestment, advisory and trading costs or leverage. A complete list of all past recommendations is posted on our Web site at prudent-speculator.com.

Leading economic indicators are measurable factors of economic performance that change before the underlying economic cycle starts to follow a particular direction or trend. Major leading indicators include orders for durable goods, orders for plant and equipment, new housing starts, change in raw material prices, corporate profits and share prices, business formation and failures and money supply. Coincident (or concurrent) indicators tend to move in step with general economic and financial market trends such as gross domestic product, employment levels, retail sales, interest rates and stock market prices.

Disclosures cont.

Gross Domestic Product (GDP) is the aggregated monetary value of all the goods and services produced by the entire economy (with the exception of international activity). The key number to look for is the growth rate of GDP. Consumer Price Index (CPI) is the most widely used measure of inflation which measures the change in the cost of a bundle of consumer goods and services. The “Core Rate” excludes volatile goods like food and energy and gives a closer measure of real inflation.

The Misery Index is an economic indicator found by adding the unemployment rate to the inflation rate. It is assumed that both a higher rate of unemployment and a worsening of inflation create economic and social costs for a country.

Capacity Utilization refers to the extent to which an enterprise or nation actually uses its installed productive capacity. Thus, it refers to the relationship between actual output produced with the installed equipment and the potential output if capacity was fully used.

U.S. Consumer Confidence Index is an indicator designed to measure consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers express through their activities of savings and spending.

Institute for Supply Management (ISM) is a not-for-profit United States association for the benefit of the purchasing and supply management profession, particularly in the areas of education and research. The ISM publishes the monthly publication *Inside Supply Management*, which includes the purchasing surveys *Manufacturing ISM Report on Business* and the *Non-Manufacturing ISM Report on Business*.