



Quarterly Update



3rd Quarter 2009

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FROM THE INVESTMENT TEAM

Since last fall, we have emphasized corporate bonds in all of our portfolios based on the fact that during the liquidity crisis, interest rates on these vehicles soared to the highest spreads relative to U.S. Treasuries we have witnessed in our lifetimes. We believe this strategy has worked well, but, we feel it is starting to come to an end. Credit spreads remain above historic averages, but are no longer that wide. Pundits are now predicting that in the future bonds will continue their path of outperforming stocks for the next ten years. Their predictions are based on looking back to the past ten years. In order for this to happen, interest rates would have to decline precipitously from today's levels, as they did over the past ten years. We doubt the logic of such a prediction and feel that stocks are much better values, going forward, for the long term. This does not mean bonds do not have an important place in a portfolio for income and to dampen risk and volatility. It just means that, as of today, most bonds have limited potential for capital gains, but if well chosen, they provide a steady flow of cash.

Clients have ways of asking interesting and challenging questions. Recently, one asked us: In all of this turmoil, what new insights or strategies have you employed? In other words, what's changed? In the past, we have avoided using mutual funds or other funds because of the double fees charged to our clients. Last fall, when bond trading was so illiquid, we were forced to consider bond mutual funds to round out our direct holdings. This forced us to do some soul searching about what our strengths and weaknesses were and how we could use others to help us even if it meant additional costs. Now when we are interested in an area and find we lack the expertise, we will look for low cost ways to employ it through the search for outside talent. Some recent examples are an ETF which holds a large basket of emerging market equities and

a distressed bond fund. One thing that has not changed is that principals of Greystone try to invest alongside our clients, so our diligence persists. We do not like paying additional fees for ourselves anymore than our clients do.

Another question concerns whether we have the ability to foresee dire events such as the ones which occurred last year when prices declined dramatically for virtually all asset classes. Although we were able to discern that the technology boom earlier in the decade was unsustainable and avoided some of the consequences, we have to say that a worldwide collapse experienced in 2008 was difficult to predict. Devoting our resources to a once in a lifetime possibility would detract from our long term focus and process. Marty Whitman of Third Avenue Value Fund addressed this issue in his recent quarterly letter (dated July 31, 2009): "In the management of the...portfolio, we treat Catastrophic Markets as non-recurring events. Such markets existed from 1929-1932, 1937, 1974, briefly in 1987 and 2007-2008... Fund Management cannot make sound investment decisions if it assumes that draconian general market declines are just around the corner. Rather, investment decisions... are made based on reasonable worst case scenarios, with emphasis on the word reasonable."

It appears that the financial crisis is behind us. Now begins the slow process of healing. Consumers are and will continue to deleverage and increase their savings – a good thing in the long run. Investors with long time horizons should be rewarded. We are excited about the future challenges of our business and the enjoyment we have serving our clients.

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THIRD QUARTER ACTIVITY

Alphabetical listing of all equity block buys and sells in the quarter with a summary of the largest (by block trade value) buy and sell.

BUYS:

Abbott Laboratories
Brookfield Asset Management
Becton, Dickinson Co.
Berkshire Hathaway (add)
Intel (add)

SELLS:

American Express (trim)
Hang Lung Properties (trim)
Johnson & Johnson
Kraft
Laboratory Corp. (trim)
Procter & Gamble (trim)

BUY:

Abbott Laboratories (ABT)

Abbott is a diversified, multinational health care firm focused in four main business segments: Pharmaceuticals [for immunology, cardiology, and infectious diseases], Nutritionals [for infants, children, active adults, and patients with special dietary needs], Diagnostics [laboratory and molecular diagnostics for low to medium volume labs and hospitals], and Other Medical Products [vascular, vision care, and diabetes]. The Company, headquartered in Chicago, IL, has more than 72,000 employees worldwide, serving customers in more than 130 countries.

Our decision to invest specifically in Abbott is based on the following...

1. The Company has several leadership positions in appealing growth markets with solid, long term demographic trends.
2. Abbott generates strong free cash flow and has plenty of financial resources to do R&D, tuck in acquisitions, and partnerships.
3. The Company pays a very attractive dividend and has raised it for 37 consecutive years, including 2009
4. This market-leading business appears to be trading at an attractive discount to our estimated fair value.
5. Some key products include: Humira [#2 biologic worldwide], Similac [#1 infant formula], Ensure [#1 hospital nutrition], Xience V [#1 drug eluting stent].

SELL:

Johnson & Johnson (JNJ)

While JNJ served its purpose as a defensive, diversified, global health care holding in our portfolios, the market provided us the opportunity to invest in two new health care names with attractive, diversified business prospects that we expect an even wider margin-of-safety.



PLEASE NOTE:

- The link to our latest 13F filing can be found on our website. This quarterly filing reflects all equity holdings in discretionary accounts.
- **Investment Objectives. Please let us know if you have any changes.**
- Proxy Voting—If you would like a copy of how we voted your proxies and/or our guideline, please send us a written request.



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