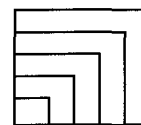


January 4, 2010



**Wenzel
Analytics
Inc**

Happy New Year to my clients,

Returns

Including cash, cumulative annual returns for our eight years were 5.8%. The annual return on investments (excluding cash) was 6.7%. The Russell 3000, which does not include cash, had annual returns of .3% over the same eight years.

Until the fall of 2008 we usually met my goal of ten points above the benchmark. (See page 4 of the Performance Summary.) While many investors are still sitting in cash, we have gotten back on the pony, although with more defensive positions and more readiness to quickly sell what is not working regardless of beliefs about the particular investment or its industry.

For 2009, the time-weighted return (TWR) on investments was 39% compared to 25% for the Russell 3000. Including cash, the return was 30%. I would caution you to not take any of these numbers or the numbers in your reports too precisely. Today the Russell 3000 was up 2.1% and our positions were up 3.8%, roughly 10% of the total gain for 2009 and over half the average annual gain of the past eight years. I will let you figure the ratio between the Russell 3000 gain of 2.1% and the average annual gain over eight years of .3%.

I encourage you to read the Performance Summary covering all Wenzel Analytics accounts. I can appreciate that you are most concerned with how your own account(s) have performed. However, judgments about future performance are more reliably based on my overall performance than on the variations of individual accounts. After reading the general report, let me know if you would like a different allocation between portfolios. Page 5 describes the differences between Time-Weighted Returns (TWR) and Return on Investment (ROI), also known as Internal Rate of Return, IRR). My book-of-business Performance Summary uses TWR while your accounts are reported in ROI. Do you know why? The report is also a good thing to give to relatives and friends as a way to introduce Wenzel Analytics!

An alternative to mutual funds.

Market Perspective

My general conclusion from the last two years is to trust the data more than the theories or beliefs. By data, I refer more to predictive than descriptive sets of numbers. Having stayed in the market too long in 2008 and early 2009, I want to be more responsive to the numbers and not hang on to beliefs about what I think a stock, industry or market will do.

I have recently run tests on a variety of statistically derived screens that I have developed over the past fifteen years to see how they perform currently and over different periods. A handful consistently each have exceptional returns, although to pick between them appears rather random.

While looking at historical patterns, I am also going to shorter time frames. I now datamine weekly data in addition to monthly data. I have found that industry data are often more predictive than individual stock data, and so mine a database of just industry data.

Having said all that about data-based decisions, I believe the best investments for 2010 will be emerging markets, energy, energy servicers, mining, smaller caps, cyclical stocks and infrastructure.

Life at Wenzel Analytics.

Working from my home at odd hours doesn't leave a lot of separation between personal and work. Indeed caring for your investments is part of personal relationships. So I have two personal experiences that connect to managing your money.

After running every other day for some thirty years, starting about a year ago I couldn't run because of hamstring pains. But I could ski and bike and assumed it would go away. By summer I was going regularly to a physical therapist/chiropractor who assured me I would run again. When that wasn't happening, he sent me to a pain clinic for pictures. After an MRI and two epidurals, I still couldn't run. Then at a Midwest Expo booth, another chiropractor enticed me to her office and a consequent meeting with a nutritionist. After

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reading a very technical medical article they supplied, I stopped taking the statin medication for cholesterol that coincidentally I began taking not too long before my hamstring problems. I also bought some coil-loaded running shoes. Now our Golden Retriever Tessa and I can run just fine, and I feel more than a year younger. Moral of the story: be wary of trusting institutional guidelines and their practitioners. It applies to investing as well.

At the same Midwest Expo I attended a session on kites pulling skiers and boarders over the lakes. Dad loved to ski from a rope, and had us going behind the car when we were six or seven years old. So I bought a harness that you sit in, a "trainer" kite of four square meters, and a larger twelve meter kite. I have been watching these instructional DVDs. Trying to catch the invisible force and get a good ride before it turns fickle feels just like what I do at my desk.

While I did get a special helmet, the sequel to the above paragraph is that many of you have asked what to do if somehow I suddenly wasn't here to manage your account. We know from Scott's death that it can happen. After a search of years for a firm or person I would endorse, I have found such a firm and have worked out a succession plan with them. If I suddenly wasn't able to manage your account, you would receive an explanation and invitation from them to manage your account. If you accepted their invitation, they would assist you in moving your account to a brokerage that they use. Their performance and fees are comparable to mine. For as long as they held your account, a fee would come to my heirs similar to the fees they pay Schwab for referrals. That fee would have no impact on your fees. If you want more information, please inquire.

Heads Up on Scottrade

Last July Scottrade released a new platform for Advisor trading. I was able to continue on the old platform for a few months, but am now dependent upon a platform which is inadequate to my business and trading needs. I present the detail I do because I know it is a lot of work to open new accounts at another brokerage.

The platform is too slow to be a trading platform, lacks appropriate error detection, and presents inconsistent data on different web pages. Allow me to illustrate each of these shortcomings.

My investment model is to buy a number of stocks in each of several portfolios for each client. I routinely review positions and sell. Then I periodically reduce the accumulating cash by reviewing each clients' allocation and buying several stocks to flush out existing portfolios or add new ones. On December 2 I placed orders for 220 positions before meeting a group for lunch. After lunch I was going through and allocating or assigning shares to your individual accounts. The initial orders are made in a Master or house account that normally doesn't have any funds or margin. Orders can be pre-allocated, meaning I designate whose accounts the orders go to, or post-allocated, meaning I can do that later. Either way, the queries are so slow that I have found I cannot place 200 orders in a single day, even when working on two computers. While the selling process is a little faster, I don't believe I could sell your positions in a single day even if I knew in advance exactly what I wanted to sell. I end up spending my time doing clerical functions rather than research, and don't have the flexibility I need in precarious markets. By contrast, at Interactive Brokers which I'm checking out, I can upload my trading sheet and do in a minute what I can't do in a day entering orders at Scottrade.

Now for the error detection part. On December 2 as I was doing allocations after the market closed, I discovered that I had keyed in the number of shares on one order from one line too low. The result was not only that I owned \$480,000 worth of a stock I did not intend to own and had no way to pay for, but that I had bid up the market in order to get the fill. I was on the phone with Tony my broker first thing the next morning, and he said I should just go ahead and sell it. I watched awhile and as the price was edging up to within a thousand dollars of what I had paid, I tried to execute a sale but the system tied up in a query. Meanwhile I could see on my other computer that the price was collapsing. I ended up watching it that day as it went down about \$20,000 at one point. I didn't intend to be a day trader. It closed the day down \$13,000. (I didn't tell Jan until this was all over, and she thanked me.) The next morning it gapped up. I decided to sell half through a limit order that would recover my cost, and the other half as a market order when I clicked the sell button. When it was getting close again to costs, I clicked to sell and got a red error message that I already had an order for that stock (yes?). I didn't know if the order had executed or

not, and couldn't find it on the order executions list as it was buried in the midst of about 80 orders (They don't sort). This was better than a video game for getting the adrenaline flowing! I placed another order for half, and then another that came up with the message that surprised me by saying I didn't have the shares to sell. I escaped with a personal loss of \$2,000, about half of which was from the size of my order filling much lower than the trading pattern.

This last week I placed an order to sell five positions. My overnight datafeed showed that three had sold. The website page the next morning showing history showed that three had sold. One of the two missing orders was in my account that I was having moved to Interactive Brokers as part of a testing process, so I presumed that was why it didn't execute. I then placed another pre-allocation order for the remaining position, which was from an IRA account. One should not be able to sell short or shares one doesn't have from an IRA account. The sale the day before had gone through but not shown up yet, and the sale the next day also went through. Scottrade called and said they will split the difference with me for the cost to resell the stock, which naturally went up in the meantime.

Some context might be helpful. Scottrade is a premier retail brokerage. The retail trading platform, and the special daytrading platform called Scottrade Elite are state of the art. Apparently the Advisor Services unit is a poor stepchild, unable to get priority from corporate IT for their projects. Two and a half years ago Scottrade sent two gentlemen up from St. Louis to get my reactions to various page displays for their new platform. That vendor wasn't given the go-ahead. Impatient, it appears the Advisor Services unit contracted on their own for a new platform. While improvements have been promised, I haven't learned of any performance benchmarks, such as will be able to make 200 trades within two hours. Having written software that I then supported for fifteen years, I don't think the architecture of the program will allow incremental improvements to make it a satisfactory platform. And it doesn't appear that management has the courage to admit a mistake and throw it out. It may be adequate for advisors who put all accounts in the same ten positions and only occasionally rebalance.

The relationship skills of my broker and his predecessor are exceptional. We have worked together for hours to iron out allocation and other problems. However a system that is fast, reliable, accurate and complete to my requirements has little need of customer service and I think is preferable to a poor system with excellent relationship building reps to help with all the adaptations and corrections.

While it is a lot of work to open a new account, fortunately, it only takes a couple clicks to transfer assets to that account – or to transfer back to the original account.

So I'm testing things at Interactive Brokers (IB) with my personal accounts. While Scottrade is a retail broker with minimal institutional services, Interactive Brokers is the reverse. I would probably more often be your conduit. There are lots of details to check out and learn, not only around the trading but related to account services, reporting and integration with my data systems and reporting.

In 2009 I made 1708 buys and 1612 sells at Scottrade, which comes to commissions of minimally \$23,635 out of your pockets. At IB most commissions are \$1 instead of \$7, although there are trading minimums of a \$10 average per account per month. Incidentally, when exploring this I discovered that of the 1,400 positions held on December 31, 400 were purchased more than a year ago. So some stocks are held a long time, and others turn frequently.

I don't yet know how this will unfold. I expect to begin asking larger accounts to move to Interactive Brokers or another brokerage after appropriate testing. Smaller and less active accounts may stay at Scottrade indefinitely.

Boy, I went on a long time about all that. You can be glad we weren't out to lunch and you had to listen to even more! One would think I was agitated.

Thanks for the privilege of managing your money. Feel free to call or to ask to sit down together if you have something you would like to review.

Lee