LESA SROUFE & CO INC.
VALUE ADVISORS

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Third Quarter Update and Outlook

Stock market gains in recent years have mostly been focused on growth stocks and have largely left behind a broad swath of value stocks. The same is true for the U.S. stock markets compared to international markets and large companies relative to small companies. We own both value stocks and international companies. Just over the past year, the growth oriented Standard and Poor's 500 Index returned 17.9% compared to the broad Russell 3000 Value Index, returning 9.5%, both focused on U.S. markets. Even more striking, the international focused MSCI World ex USA Value Index returned less than 1% during this time period. The valuation discounts for both value and international are just as stark.
During the quarter, we added two stocks to the model portfolio. We added Daktronics, Inc., the world's largest supplier of large screen video displays, electronic scoreboards, LED text and graphics displays. We think interest in the stock will increase as demand gains traction for electronic video display in foreign markets, as the U.S. embarks on its own infrastructure program, and as the replacement cycle for older video display technology picks up. We also added Telefonica Brasil S.A. ADR, the largest telecommunications service provider in Brazil. The security is a preferred stock whose cash dividend closely follows the net income of Telefonica Brasil. Companies operating in Brazil have been tarnished by the struggling economy, political uncertainty and a weak currency. We believe this stock will appreciate as Brazil's economy recovers and the upcoming month-long presidential election is completed. Telefonica Brasil is majority owned by Telefonica Spain, a large international telecom company with a presence in 21 countries.

We also sold two stocks during the quarter. We sold the remainder of our Abercrombie & Fitch shares, as the shares reached our price objective, following an upturn in profitability and a return to favor by investors. We also sold Ford Motor Company. While Ford paid solid dividend income during our ownership, the stock price declined reflecting investor frustration with Ford's regular earnings shortfalls and more recently, weaker car sales worldwide. We believe Ford may not return to growth for some time, longer than we have patience for.

Our interest has always been in out-of-favor areas that should reprice at higher levels. That hasn't happened lately as trend-following investors have been rewarded to stick with their investments, however overpriced. Nevertheless, we believe a rotation to value is already beginning. Rising interest rates and inflation and the prospect of an extended cycle of tariffs are beginning to affect companies' earnings forecasts, and political events in other countries such as Brazil, are not as bad as feared. We believe strongly that inexpensive companies with strong or improving finances often create attractive investment returns over economic cycles. In the U.S., rising short-term interest rates have already made alternative investments to U.S. stocks relatively attractive. The current yield on the LSC Opportunistic Value Strategy's cash reserves has risen significantly over the past year along with interest rates, and has now caught up with the current average yield of the broad U.S. stock market as measured by the S&P 500. This is a significant milestone in our opinion that may ultimately change investors' strong attraction to high valuation stocks and lack of concern over rising levels of both corporate and government debt. We remain bullish on inflation hedges, such as energy, precious metals and foreign stocks that would benefit from a weaker U.S. dollar. We look forward to this rotation, long in coming.