Lowe, Brockenbrough & Co., Inc.

INVESTMENT COUNSEL

Managing Investments for Individuals & Institutions Since 1970

2009 Third Quarter Commentary

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The Financial Markets

- Domestic equity markets appreciated sharply in the third quarter, driven by investors' greater appetite for risk. Lower quality issues led the performance derby, while higher quality companies with more stable profitability lagged. Overall, the S&P 500 Stock Index advanced 15.6%, while the Dow Jones Industrial Index was up 15.8%. Small cap stocks outperformed large caps, with the Russell 2000 Small Cap Index rising 19.3%.

- International markets also enjoyed strong gains for the quarter, with returns boosted by U.S. dollar weakness. Developed markets, as measured by the MSCI EAFE Index, rose 19.5%. The MSCI Emerging Markets Index jumped 20.9%.

- As with last quarter, investors continued to favor more cyclical and oversold sectors. The strongest returns were exhibited by the Financial, Industrial, Material and Consumer Discretionary sectors. More defensive sectors continued to lag, including the Utility, Telecom, Healthcare and Consumer Staple sectors. As a result, value stocks generally outperformed growth stocks across all market capitalizations.

- The Federal Reserve Bank reiterated its pledge to keep short rates low for an extended period, yet the central bank has started to consider an exit strategy from its extraordinary interventions to stabilize the financial system.

- Treasury bond yields declined during the third quarter after rising sharply in the first six months of 2009. At quarter-end, yields on the 2-year and 10-year Treasury Notes were 0.95% and 3.31%, respectively, compared to 0.76% and 2.26% as of December 31, 2008. The credit markets have rebounded strongly with investors embracing riskier assets, causing yield spreads on corporate bonds to narrow dramatically year-to-date. The lowest quality bonds have generated the greatest returns, in stark contrast to last year's results. The Barclays Capital U.S. Aggregate Bond Index returned 3.7% for the third quarter and 5.7% year-to-date. Strong absolute returns in the corporate bond sector have led the Index. U.S. Treasury returns were modestly positive in the third quarter, but still in negative territory for the last nine months.

- Municipal bonds rallied strongly through September, buoyed by robust demand that continues to outstrip supply, thus driving prices higher and yields lower. Tax-exempt bond funds have enjoyed record inflows from retail investors frustrated by the drop on money market fund yields to near zero. The market also seems to be pricing in the probability of higher federal income tax rates that will enhance the value of outstanding tax-exempt bonds. Stretching for yield, investors have extended maturities in portfolios and moved down in quality, compressing quality spreads. As a result, the tax-exempt yield curve has flattened, with long maturities seeing the greatest price gain.

THIRD QUARTER 2009 MARKET COMMENTARY

The Economy

- The contraction in GDP in the second quarter of 2009 marked the first time since records started in 1947 that the U.S. economy has shrunk for 4 consecutive quarters. However, the economy has shown some recovery throughout the summer. Since April, leading indicators have pointed to improvement in economic activity. Consensus expectations are for GDP to show positive growth in the third quarter, though this growth has been aided by the temporary Federal "cash for clunkers" and first time home buyers incentive programs.
- Another 263,000 jobs were lost in September – the 21st consecutive month of job losses. Since the recession began in December 2007, 7.2 million jobs have been lost. The unemployment rate has risen to 9.8% - twice the rate at the beginning of the year.
- Consumer spending, representing 70% of the economy, is still lethargic. Consumers' increased propensity to save rather than spend reflects uncertainty over future taxes, medical and energy costs, high unemployment, tight lending requirements and lower home values. While measures of consumer confidence have recovered from their lows, improvement has plateaued.
- The manufacturing sector has shown some improvement over the last two months, though the gains have been modest, and regional data has been mixed. Aggressive inventory controls seem to be muting a rapid inventory rebuild.
- The S&P/Case-Shiller Index of home prices has increased slightly for three straight months, demonstrating price stabilization in some areas. High levels of foreclosures continue. Most sales activity is in the lower price tiers that have access to Federal incentive and mortgage programs. Existing home sales unexpectedly fell in August, a reminder that the recovery will likely be protracted.
- Corporate operating earnings are projected to decline 16.8% in the third quarter following a decline of 15.6% in the second quarter. For the quarter, the Energy and Materials sectors are expected to do poorly, while Financials and Consumer Discretionary companies should do well relative to last year's abysmal results.
- Emerging markets have had lower exposure to holdings of "toxic assets" that have hurt the U. S. and European countries. As such, global growth is improving faster than U.S. domestic growth. China continues to grow faster than most expected, with GDP potentially rising as much as 9.4% this year. Other countries with strong domestic markets such as India and Brazil continue to do well.

Future Prospects and Portfolio Strategy

- With high unemployment persisting and consumer spending expected to remain weak in 2010, the economy will likely chart a sluggish recovery. Global excess capacity in manufacturing and enormous slack in the labor markets should keep inflation contained for the next couple of years.
- Equity markets have bounced strongly off the panic levels seen earlier this year. Lower quality, higher risk stocks with weaker fundamentals have led the way. The so-call "risk trade" has dominated, as market momentum players have targeted short term gains, while practically ignoring sound company fundamentals. Nevertheless, Lowe, Brockenbrough's equity portfolios remain positioned in the stocks of companies and funds that have relatively strong underlying earnings growth and profitability with attractive valuations. As the markets transition from early cyclical companies to those with longer term, stable earnings patterns, our equity strategies should prevail.
- Earnings have held up much better than expected throughout this downturn as margins held well above previous troughs. Shifts in sector weights favoring higher margin sectors, higher commodity prices, lower tax rates, larger global mix of business (now almost 40% of S&P 500 earnings), and rapid cuts in SG&A costs have all contributed to higher profit margins. Sales will need to begin increasing to support rising earnings expectations. This typically happens 6-9 months after the end of the recession, which appears to have ended this past summer. Equities look fairly valued trading at 15x 2010 earnings estimates. Analysts expect earnings to grow 28% next year off of trough levels set this year.
- The demand for investment grade corporate bonds has driven spreads narrower despite high-profile bankruptcies in the auto sector and other distressed industries. The Federal Reserve's accommodative policy, together with subdued inflationary pressures, should favor bond returns in the near-term. However, prospective fixed income returns from low interest rate levels are expected to be modest. Our risk-averse, higher quality, intermediate bond strategy should help us retain flexibility in this changing atmosphere.
- With demand overwhelming supply, municipal bonds have rallied to the extent that there appears little value in the sector, especially in short maturities. Investors should consider taxable instruments such as CDs or corporate bonds in the short end while extending to longer maturities in high grade tax-exempt bonds. Municipal credit quality will lag the economic recovery as state and local governments face deteriorating budget projections next year.

Our Strategies versus the "Risk Trade"

Our investment strategies at Lowe, Brockenbrough & Company are intended to produce better than market results over longer term market cycles. Our primary equity strategies are built on solid research covering over twenty years, which validates our belief that portfolios of stocks with steadier, above average earnings growth, selling at attractive relative valuations, produce superior results. Our fixed income strategies emphasize high quality portfolios with intermediate maturity ranges that protect well in volatile markets and produce a stream of income for clients. However, over the short time frame of the last few months, these strategies have not fully participated in the unprecedented market advance driven by the "Risk Trade."

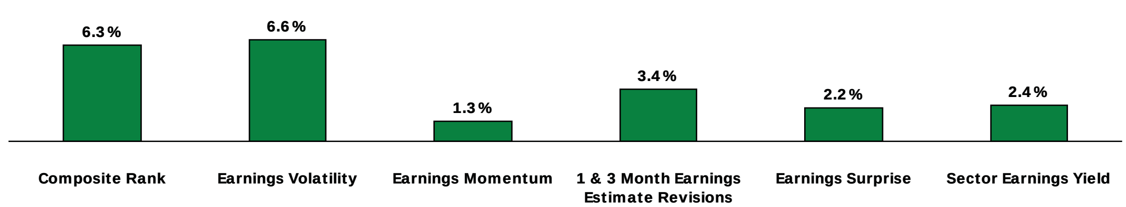
The "Risk Trade" is the popular lexicon for investing in higher risk/beta stocks and bonds in an effort to outpace market momentum. Beginning in the summer, with initial evidence of improving economic data off a low base and with little rise in interest rates, investors seeking higher returns began a more aggressive shift into riskier assets. Within the fixed income category, the move out the risk curve has meant greater demand for lower quality corporate bonds, junk bonds, and even emerging market debt, resulting in higher returns for those riskier sectors. The divergence in quality has played out in the equity markets as well. Cyclical equities, whose prices and earnings were decimated in the previous down cycle, have been feverishly bought up. In many cases, current valuations on these stocks are being justified by 2011 or 2012 earnings estimates, valuing them near peak earnings multiples. Many of these cyclical stocks have seen nice bounces off market bottoms in past cycles, but the speed and degree of the current move is unprecedented.

A recent Citigroup report shows that over the 16 months prior to May 2009, domestic stocks suffered a decline of 40% in 12 month forward earnings estimates. This was far greater than the 25% decline after September 11, 2001, and the largest in over 20 years of data. Earnings estimates have now begun to stabilize, rising 9% off a cyclical low base. Forecasts for more cyclical companies are rising faster, after declining the greatest amount in the prior period. Turning points in earnings forecasts such as we are now experiencing have traditionally produced periods in which investment processes using earnings-based factors have lagged in relative performance. This time period is no exception, and has been magnified by the amplitude of the previous decline in earnings estimates. In this atmosphere, companies with relatively steady earnings increases this year and next have received little investor attention.

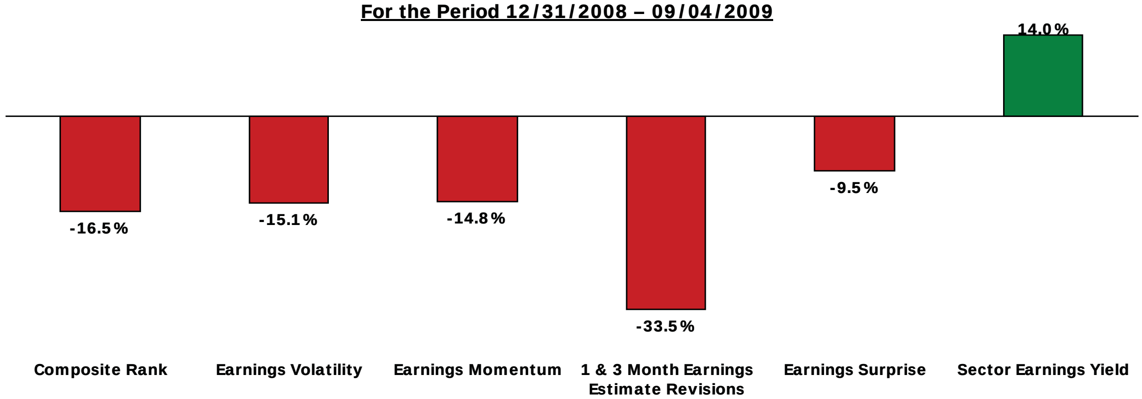
Over the last 22 years of research and real time experience, the five primary factors Lowe, Brockenbrough uses in our earnings-based equity strategies have enjoyed a meaningful positive spread between the highest and lowest ranked stocks in our universe. But, in the nine months so far this year, the four factors related to earnings - volatility, momentum, revisions and surprise - have experienced sharply inverse results. Only one, the sector valuation factor, has produced results as expected.

Return Difference in Top Comp Ranked Stocks (1 & 2's) and Bottom Comp Ranked Stocks (9 & 10's)

All 9 Month Periods From 12/31/1986 – 09/04/2009



For the Period 12/31/2008 – 09/04/2009



However, as actual earnings momentum begins to turn, the relative performance of earnings-based strategies have historically reverted to more positive patterns. The following chart demonstrates our continued adherence and commitment to our investment process and philosophy. Our model equity portfolio characteristics exhibit greater stability in earnings growth relative to the market, with now even more attractive relative valuations.

Earnings Driven Portfolio Holdings Characteristics

As of 9/30/09

EPS Growth	Earnings Driven	S&P 500 Cap Weighted	S&P 500 Equal Weighted
Last 5 Years EPS Growth	14.1%	-9.0%	-2.0%
Last 10 Years EPS Growth	12.1%	-2.0%	4.0%
2010 Projected EPS Growth	13.0%	28.0%	23.0%
2011 Projected Growth	14.0%	18.0%	19.0%

Valuation	Earnings Driven	S&P 500 Cap Weighted	S&P 500 Equal Weighted
P/E on 2010 Estimate	12.5	15.1	15.0
20 Year Average Forward P/E	17.0	16.9	17.8
Forward P/E as % of LT Average	73.5%	89.3%	84.3%
Forward P/E to LT Growth Estimate	1.3	2.2	1.9

The equity portfolio holdings characteristics are derived using a weighted average of the securities in a model portfolio that is representative of the Earnings Driven process.

In addition to our earnings-based strategies lagging overall market returns during this rally, it is worth noting that most other "quality-based" equity strategies have underperformed as well, including those strategies based on high quality rankings, dividend growth, and dividend yield. Of course, it was just these strategies that outperformed during a difficult 2008. Over the long term, we have seen temporary periods when our strategies did not produce returns as high as the overall market, but rarely have these strategies produced the extraordinarily low relative valuation levels we see in our portfolios today.

In the past 10 recoveries, GDP (Gross Domestic Product) returned to its previous peak within 12 months. With the structural damage and system-wide de-leveraging produced by this recession, it may take years instead of months for GDP to return to 2007 levels. After an initial spurt off the bottom, we anticipate a slower economic recovery going forward, with higher budget deficits, chronic unemployment and below-trend consumer spending. In this scenario, we believe the strong relative performance of cyclical, higher risk stocks will quickly run its course. Then, steadier growth, reasonably valued stocks will reassert themselves as they have done in the past, augmented this time by low relative valuations and low interest rate investment alternatives.

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