

R I V E R P O I N T R E P O R T

May 4, 2010

MARKET UPDATE

March's slow and steady rise has given way to a more volatile market month in April. Positive circumstances, such as an improving economic picture and positive earnings reports, and negative events like the uncertainty surrounding Greece and the recent oil spill in the Gulf of Mexico, have brought cyclical stocks back into the spotlight. Cyclical stocks are those whose prices move more dramatically than the broader market – rising faster in good times and falling further in bad times. Stocks qualify as “cyclical” for a number of reasons, from a short-term focus from management to highly leveraged balance sheets to simply the nature of the industry in which the company operates (think mining firms, semi-conductor companies, or homebuilders). All of these companies, however, have at least a little bit of a “boom or bust” quality to them. To measure a stock's cyclicality, investors use “Beta,” which gauges the historical cyclicality of a stock – the higher the Beta, the more cyclical the stock. Recently, and as was the case in 2009, higher beta stocks have come back in vogue. The performance of the stocks that make up the S&P 500 Index bears this out: cyclical stocks (in this case, those with Betas greater than 1.2) averaged a 4.3% return in April, while stocks with Betas below 1.2 have returned 1.8% on average.

At RiverPoint, we are maintaining our existing mix of consistent, high-quality “core” holdings along with more cyclical stocks in the Industrial and Materials sectors. We are beginning to feel better about the nascent economic recovery, especially with the continued improvement demonstrated by the first quarter earnings news from our stocks as well as the broader market. As earnings reports come in, firms in previously beaten-down sectors continue to surprise investors with their strong performances. In Finance, large banks like Bank of America have said that the pace of loan losses has slowed significantly and that conditions appear to be stabilizing. Large industrial conglomerates such as United Technologies and 3M have reported that demand has picked up, especially in emerging economies. Technology companies have also posted strong results, as corporations have begun to spend on technology again and consumers have re-opened their wallets a bit.

GULF OIL SPILL UPDATE

As you probably know, a massive oil spill is present in the Gulf of Mexico. This oil, emanating from the damaged drill hole at an estimated rate of 5,000 barrels per day, is a threat to the region both ecologically and economically. Since an explosion sank the deep-water drilling rig into the Gulf, we have been keeping up with the ramifications for equity holders. Our detailed research indicates that the well's owners – British Petroleum (ticker: BP) and Anadarko Petroleum (APC) – are going to be held liable for the collateral damage wrought by this catastrophe (estimates run as high as \$15 billion, which is likely to exceed insurance coverage limits). It has been reported that a cementing job was finishing up at the well when the explosion occurred – this function typically falls under the purview of the well owner or servicer (in this case, Halliburton – HAL) and such activities are coincident with approximately half of similar well problems across the globe. Rig supplier Transocean (RIG), which we own in many client accounts, appears to be liable only for its insurance deductible for the loss of the rig itself. RIG could be liable for part of the clean up costs if they were found guilty of gross negligence regarding the sunken rig's maintenance and upkeep, but this is unlikely considering that

Transocean tested the rig's equipment frequently and won a quality award for that exact rig only last year. Also, Transocean is well-covered with over \$1 billion in liability and property insurance, with at least \$700 million in environmental clean-up coverage.

In summary, this disaster will be investigated and the resulting rules and regulations will change in the industry, but the fact remains that we are still dependent on oil and large reserves exist offshore. While near term the publicity is negative, the spill will be cleaned up and the well ultimately capped. Offshore drilling will continue even after this incident and Transocean, as a leader in the production of oil rigs used in deep-water drilling operations, is going to be a large part of the future.

GOLDMAN SACHS EXEC SUMS UP WHERE BROKER LOYALTY LIES

“I believe we have a duty to serve our clients well.”

There it is, straight from the horse's mouth. That quote, from former Goldman Sachs partner Daniel Sparks, sums up where broker interests really lie – not with their clients, but rather in the bottom line. You don't have to be a talented attorney to read between the lines of Mr. Sparks' response. “Serving clients well,” as Mr. Sparks said it, is not the same as acting in a client's best interest. This is the major difference between a registered investment advisor, like RiverPoint Capital Management, and a brokerage house.

Here's a little background: On April 27, several Goldman Sachs executives were called to testify in front of a Senate subcommittee. The Senators called them there to shed light on whether Goldman lied to its clients in an effort to sell complicated derivatives products.

During the session, Senator Susan Collins of Maine asked each of the gentlemen, “Do you have a duty to act in the best interests of your clients?”

Most of the Goldman executives hemmed and hawed without providing much of a response. Then Mr. Sparks answered: “I believe we have a duty to serve our clients well.”

Brokerage houses, like Goldman Sachs, Merrill Lynch, Morgan Stanley, UBS and Smith Barney, have no legal responsibility to act with their clients' best interests in mind. It is within this context that Goldman Sachs got itself into this very high-profile pickle – the Securities and Exchange Commission is alleging that Goldman designed a sophisticated derivatives product so that it would lose value and perform miserably, and then sold this “lemon” to its clients. The sole purpose of this exercise, according to the S.E.C, was to enable other parties (and maybe even Goldman itself) to profit by betting that this product would decline in value.

As a registered investment advisor, RiverPoint has a legal responsibility to act solely in the best interests of our clients. Registering as an investment advisor – not just claiming to be an investment advisor – puts a firm in a position where they are legally required to act as a fiduciary for their client assets and always act with the client's best interests in mind.

Basically, “Wall Street” firms, with no fiduciary responsibility to act in the best interest of their clients, are in the business of selling investment products. Good or bad, right or wrong – these firms will whip up almost anything as long as they can sell it. At RiverPoint, the only thing that we have to sell is our people – our integrity, our investment expertise and our commitment to outstanding client service. If you know any friends, family or business colleagues that are using a broker as their investment advisor, this might be the time to mention RiverPoint's name. We are accepting new clients and would be pleased to talk with anyone about how we manage investments with only the best interests of our clients in mind.

<u>Market Summary</u>	<u>4/30/10</u>	<u>YTD Price Change</u>
Dow Jones Industrial Average	11,009	5.6%
Nasdaq Composite	2,461	8.5%
Standard & Poor's 500 Index	1,187	6.4%

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