

THE LONDON COMPANY

INVESTMENT COUNSEL

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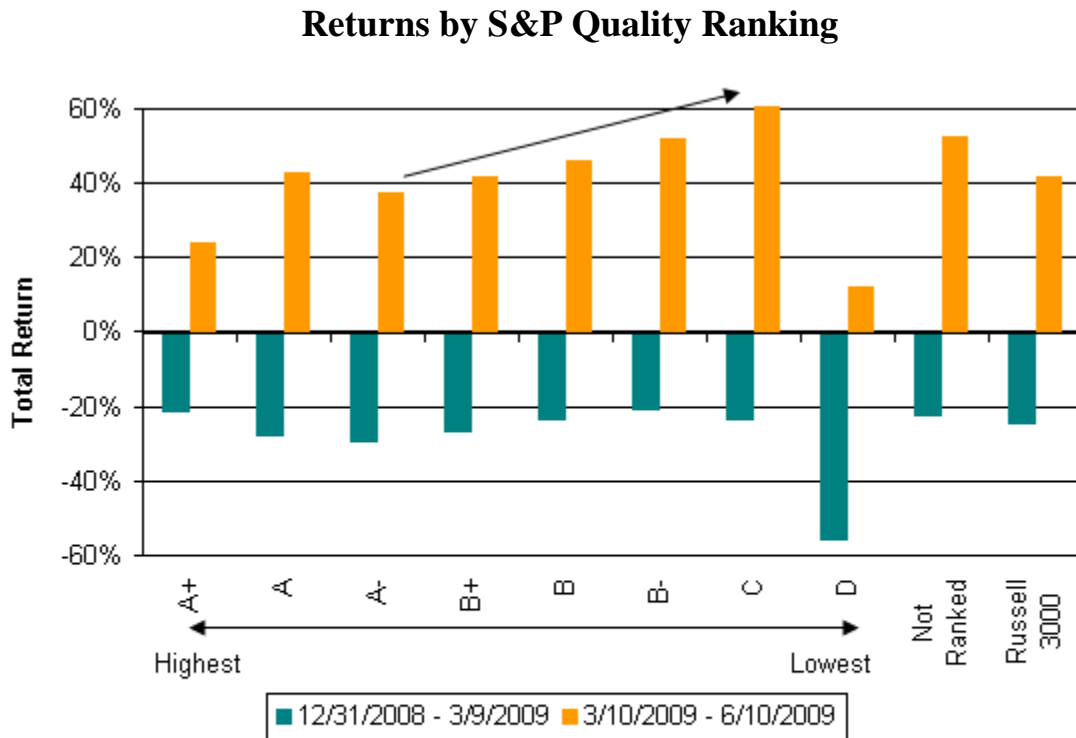
Dear Client,

The rally in stock prices that has occurred since the lows were reached on March 9th has been nothing short of stunning. The S&P 500 Stock Index returned 15.93% for the quarter and is now up 3.16% year-to-date. Most importantly, it closed the month of June 35% above the March 9th low, although it remains 41% below the October 2007 high. While a return of this magnitude is not without precedent, it is remarkable in its quick duration because a rebound of this scale usually takes many months, not three.

There were several reasons for the dramatic turnaround in stock prices. Chief among them was that the stock market was oversold in our view. Last quarter, we commented that corporate earnings expectations were so low that for the market to improve, companies did not have to report good earnings, just earnings that were better than extremely low expectations. This is in fact what happened. Company after company reported sales, revenues, and profits that were lower year-over-year; however, the earnings were better than predicted as corporations had slashed costs aggressively in anticipation of a harsh operating environment. Improvement in the credit market was also a key factor. By May, the LIBOR three month rate was less than 1% indicating that the crisis was easing and credit was becoming more available to companies. Finally, the economic outlook began to improve. In a television interview in May on the CBS news program "60 Minutes," Federal Reserve chairman Ben Bernanke stated that the "green shoots" of economic revival were already evident and predicted that America's worst recession in decades will likely end this year before a recovery gathers steam next year.

All of this was welcome relief from an economic recession and a bear market in stocks that seemed to drag on and on, but the dramatic improvement in the stock market was not necessarily a tide that lifted all boats equally. Though the broad market as measured by the S&P 500 Stock Index is now positive year-to-date, this is due entirely to three sectors: Materials, Consumer Discretionary, and Information Technology. The other seven economic sectors are still in negative territory. As a result, the first six months of 2009 are in many ways a tale of two markets: the S&P 500 Growth Index is up 7.52% while the S&P 500 Value Index is down -1.41%.

Furthermore, a number of experts have referred to the stock market rally of the last three months as a “junk rally” as illustrated by the following chart which we obtained from the ICMA-RC website:



Source: FactSet
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The chart shows the difference in performance by *quality segment* of the stocks in the Russell 3000 Index. The green bars show the performance from the beginning of the year until March 9, 2009 when the S&P 500 hit a 12-year low. The orange bars show the performance for the following three months. Each segment corresponds to a different Standard & Poor’s (S&P) Quality Ranking, ranging from A+ (highest) to D (company in reorganization). As the chart shows, while all quality segments have had positive performance during the market rebound, those stocks with the weakest financial strength and poorest credit have generally outperformed the higher quality companies. Consequently, many fund managers like us who stayed with high quality companies that we knew would make it through the credit crisis and recession have found that their portfolios held up much better during the downturn but have lagged the market benchmarks during the recent rally.

The current outperformance of the poorer quality companies is not surprising in some ways because these were the companies that were beaten down the most as the market fell. Indeed, had the credit crisis continued in force, many of these debt-laden companies may not have survived. We think it pays to stick with the financially stronger companies.

The easy money has been made. Stocks rebounded on the potential for an improving economy. Going forward, merely getting worse at a slower rate isn't going to cut it. There must be concrete proof that the recession has ended and the economy is growing again. We believe the recovery will be anemic at best. Consumers comprise 70% of economic activity and consumers are saving more and spending less. Ultimately, this is probably a good thing but the transition to an economy where the consumer plays a lesser role will be long. In this environment, companies with strong balance sheets, positive cash flows, and able managements are in the best position to thrive and represent the best places to invest.

As required by the SEC, we have enclosed a copy of our current Client Privacy Notice, and offer the availability of our Advisors Code of Ethics and Form ADV Part II. Please notify us in writing if you would like to receive a copy of either of these documents.

Thank you for your continued confidence and trust. Please feel free to call with questions.

Best regards,



Stephen M. Goddard, CFA



Jonathan T. Moody



J. Wade Stinnette, Jr.

Enclosure: 2Q09 Portfolio Statements
Client Privacy Notice

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Client Privacy Notice

Our Client Privacy Notice tells you the kind of information we collect about you, with whom we share it, and how we protect it responsibly. The Notice applies to both current and past clients of our firm. We use the term “client” as the equivalent of the SEC’s term “customer”. We provide a current Client Privacy Notice to all active clients annually.

Categories of Information We Collect

We collect non-public personal information about you from the following sources:

1. Information we receive from you on brokerage applications, our investment profile, and other forms or oral discussions, which could include your name, address, social security number, assets and income;
2. Information about your transactions with us or others; and
3. Information about your investment holdings from financial and other statements you provide us.

We do not collect any information about you from third party consumer reports.

Disclosure of Information to Third Parties

We do not disclose any non-public personal information about our clients or former clients to anyone, except as permitted by law.

If you terminate our relationship with us, we will continue to treat information we have collected about you in accordance with this Notice.

Our Security Procedures

We restrict access to non-public personal information about you to those employees of The London Company who need to know that information to enable us to serve you. We maintain physical, electronic, and procedural safeguards that comply with federal standards to guard your non-public personal information. The London Company’s employees are all bound by its policy to keep all non-public personal information confidential to the firm.

Should we dispose of any non-public personal information, we will take appropriate measures to protect against unauthorized access to or use of the information in connection with its disposal.

Summary

We are dedicated to protecting your privacy and your non-public personal information. If you have any questions or concerns in this regard, please do not hesitate to contact us at 804-775-0317.