



June 15, 2009

To Our Clients & Friends,

As always, we at Wolverine welcome the chance to analyze and share our outlook and investment rationale of the financial markets as well as offer an assessment of the overall economy. With most of the major stock and bond indexes flat to slightly positive on the year, up rather precipitously however from the “Marianas trench-like” depths of the recent March lows, this would seem to be an especially good time for reflection and re-evaluation, as well as a very opportune time to share our thoughts on how to benefit from the discordant forces that are currently at work.

As we near the end of the second quarter of 2009, the financial markets currently find themselves caught between two counteracting viewpoints – the emerging “green shoots” of economic stabilization that pundits and economists spout rhetorically every night, versus what seem to be ever-rising deficits, continued foreclosures and daily announcements of job cuts. This bifurcation of themes seems to have the markets hogtied at the moment, thus the flattish performance year-to-date of the major averages in both the equity as well as fixed-income areas of the markets.

We are in the camp of believing that there are further headwinds ahead in the not so distant future. As we survey the investment landscape today, we recognize that one of the major differences between the current recession and those in the recent past is that the current financial meltdown has been more global in nature, leaving few countries or currencies untouched. This is in contrast to the pattern of previous corrections which seem to have occurred primarily in the developed world. This observation, along with the fact that the problems in the financial services industry – the current ground zero of the market correction of the past 18 months – permeates the economy more extensively than the causes of previous downturns. All of which leads us to

June 15, 2009

Page two

believe that the climb back to “normalcy” in the next two to three years time horizon will be bumpy, to say the least.

Despite the foreboding portended to in the previous paragraph, looking out over the next six months we actually expect the pattern of recovery in the markets and economy to continue to trend slightly upward and extend the past three months’ gains. With the ongoing coordinated global central bank actions (i.e., the printing of money pumped into the world economy to help “normalize/stabilize” credit markets) – the reflating of the economy will become a tenet of our investment outlook for the foreseeable future. Our belief is that the resulting effects of all of this monetary expansion in the short term will result in a bolstered stock market, weaker U.S. dollar, a flattish bond market, and a slightly bullish case for commodity prices. While it is true that it took only seven months for the Dow to fall from 11,000 to 6,500, we are in actuality looking at a much longer time period for the market to trudge back up to those lofty levels. However, after 18 months of market declines, we are heartened, to say the least, to finally see what appears for now to be the prospects of economic stabilization and modestly improved market conditions.

The fact that the current recession – or, as some would argue, a “slight depression” – now at 18 months and counting, is the deepest since the Great Depression. This suggests that the recovery period, whenever it commences, will be unusually slow and sluggish. The basis for our current investment and economic outlook for the next few years lies in the belief that the recovery from the current recession won’t be an overnight phenomenon –it won’t be a “V” shaped move upward, but instead will be more “W” shaped, if not in fact a series of successive “W” shaped moves. This augurs further retests not necessarily of the March lows (due to the large amount of money sitting on the sidelines that has missed out on the current rally), but quite possibly dramatic downdrafts nonetheless. In other words, we remain true to our belief espoused in our correspondence late last year that “we are not out of the woods, and that progress over the next twelve months will be limited (maybe now extending our forecast out a further 12-18 months) – we fully expect violent rallies and sharp pullbacks along the way”.

To quote a recent op-ed in the Wall Street Journal, “here we stand more than a year into a grave economic crisis with a projected budget deficit of 13% of GDP. That’s more than twice the size of the next largest deficit since World War II. And this projected deficit is the culmination of a year when the federal government, at taxpayers’ expense, acquired enormous stakes in the banking, auto, mortgage, health-care and insurance industries.” The WSJ piece goes on to state, “panic-driven monetary policies portend to have even more dire consequences. We can expect rapidly rising prices and much, much higher interest rates over the next four or five years, and a concomitant deleterious impact on output and employment not unlike the late 1970’s.”

June 15, 2009

Page three

This lends credence to our conclusion that the overall market movement over the next few years time could prove to be fraught with stomach churning ups and downs as we strive to rebuild upward and sustainable progress. It is also doubtful to us that economic growth will be enough to offset the higher levels of government spending completely, especially with an administration and congress that have proven themselves to be fiscally irresponsible at times and therefore, higher future corporate and personal income taxes are very likely, and that combined with expected growth in inflation could help lengthen the economic recovery timeline. The final component of any nascent economic recovery will be the resolving of one of the main factors that presaged the current recession, notably the mortgage predicament.

Despite the best of intentions, we have seen huge price swings in Treasury bond prices in recent weeks that have the potential to undermine the best efforts of Ben Bernanke and the Federal Reserve to cap consumer borrowing rates. The thirty-year fixed mortgage rate has jumped to almost 5.50% from as low as 4.81% in early April, driving costs for homebuyers higher than what they were in December. Along with the rising default rate on commercial mortgages held by US banks, the Fed finds itself stuck in a very difficult place, with Congress needing to borrow trillions (3.25 as of last count) to meet its promised fiscal commitments, Bernanke & Co. do not have enough resources to step up asset purchases. Last week in fact, Chairman Bernanke made headlines calling for deficit reduction, knowing full well that any tick up in interest rates would help neuter his monetary-induced recovery. Unless the administration is able to demonstrate a strong commitment to fiscal sustainability, and deficit reduction, which right now does not appear to be the case, in the longer term we will neither have financial stability nor healthy economic growth.

So the question becomes how do we remain positioned from a portfolio perspective and look to control risk in such a two to three years economic scenario? At Wolverine, we rely on our core investing management style which emphasizes preservation as well as growth of capital, through the stepped up use of convertibles, preferreds and covered call option overwriting, resulting in a total return approach to wealth management which has the added benefit of adding to the current monthly cash/dividend income in our portfolios.

We still believe that one of the greatest risks an investor could possibly take would be to completely abandon the equity market for the safety of near zero percent returns on treasury and cash instruments. On the other hand, we feel quite secure in the notion of carrying a larger than traditional portfolio cash allocation on the order of ten to fifteen percent, to take advantage of

June 15, 2009

Page four

market opportunities, mispriced securities and asset class dislocations. Further, taking our cues from what the market itself has been telling us, over the next few months we will be looking to selectively reduce positions in certain holdings that have gotten ahead of themselves during the present market rebound and which no longer fit our ever changing investment themes and criteria, while at the same time winnowing out securities that for one reason or another haven't participated in the current updraft.

In terms of an overall asset allocation approach, and as an update to our previously stated recommendations, in light of our outlook for the next 2-3 years we would summarize our portfolio strategy as follows:

1. Maintain relatively high average cash reserves (at least 10-15% of the portfolio), to fund client distribution and expense needs over the foreseeable future, and to provide a level of safety and security, and to take advantage of tactical opportunities (see #4 below);
2. Gradually increase the allocation to higher-yielding, high quality bonds and closed-end bond funds (approx. 25-30% of the portfolio), focusing on single-A and double-A rate municipal and corporate bonds where the potential for narrowing spreads should insulate against any further principal erosion;
3. Control the allocation to pure equities, but don't abandon the asset class entirely—instead focus on high quality, secure-dividend stocks and convertible bonds in sectors evidencing strong cash flow potential (approx. 40-50 % of the portfolio);
4. For the remainder of the portfolio (approx. 10-25%), institute a flexible, nimble and tactical approach to the markets. This is not to imply that we advocate becoming active traders. But if the next period in the markets could be characterized by alternating periods of optimism and pessimism, the right approach may be to have a portion of the portfolio devoted to investing in tactical opportunities. During periods of high pessimism, cash reserves could temporarily increase to as much as 20-30% of the portfolio;
5. Note: We continue to recommend avoiding the U.S. Treasury market—investors in treasuries are basically paying the government to safeguard their assets. In our opinion, this is not a wise strategy going forward.

As in keeping with our traditional core competencies, we continue to recommend selectively writing covered calls, taking advantage of what we think will be the high water mark in

June 15, 2009

Page five

the market in the next few months. Our belief is that the secular super cycle for raw materials and commodities is still intact, almost acting in itself as an early precursor of improving economic stability as companies replenish slashed inventories and resume production lines. So with this in mind and as a buffer to higher expected inflation we are currently sizing up and looking to add more convertible preferred/bond names in the commodity area with names that include Archer Daniels Midland, Freeport McMoran Copper & Gold, Celanese, Newmont Mining. Another area that we still find attractive is healthcare, and names that we are watching for inclusion into client portfolios include Hologic, Thermo-Fisher, Omnicare, and Beckman Coulter. Finally, as a yield play, through the use of quality rated convertibles currently trading at their investment value we might suggest investments in names such as Peabody Energy, Intel Corp., and many others.

As always, we welcome any input and collaboration, especially if there have been any changes in your risk tolerance level, investment objectives, return expectations, investing criteria, themes, etc., to better reflect what you would like to accomplish in your portfolio.

Sincerely yours,

Patrick W. Fremont III
Senior Vice President

John M. Babyak
President & Chief Investment Officer