

BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

Institutional-level Money Management for Individuals

July 1, 2009

Highlights

- *Strength in emerging markets bodes well for U.S. stocks over the near term as the banking industry stabilizes.*
- *Relative to our peer group, Beacon Street Capital was once again named **Top Gun Manager** and **Bull & Bear Master** by PSN for the period ending March 31, 2008. We were also ranked **#1** in terms of risk by Money Manager Review.*
- *Volatility for our portfolios remains significantly less than their benchmark indices. This dramatically improves the impact of compounding on long-term returns.*

Our Mission: To provide a better way to invest in large-cap stocks.

Our Objective: To achieve significant alpha with low volatility over a 3-5 year horizon.

Our Products: Separately Managed Accounts of individually selected large-cap growth stocks.

Second Quarter 2009 Newsletter

The equity markets rallied in the second quarter from the panic lows in March. The rally was driven by strength in financial stocks and oil prices which indicate a recovery may be in the works. Other evidence is the strong move in the emerging markets from their bottom last October, primarily in China, which has driven strength in other asset classes. In addition, default risk and volatility also seem to have reached a bottom in the second quarter. However, even with the recent rally the quarter ended with uncertainty as unemployment in the U.S. grew beyond the current Administration's expectations. In fact, more jobs have been lost in this recession than any previous one, but unemployment is a lagging indicator.

Due to the strength in bank stocks, of which we own none, as well as our large cash positions, we underperformed our benchmarks in the second quarter. The DowJones/*Select* composite underperformed the DJIA by 236 basis points for the quarter, while our S&P500/*Select* composite underperformed the S&P500 and the Russell 1000® Growth indices by 234 and 273 basis points respectively. However, with bank stocks having reached a peak in May when the Fed's stress tests were released and having since pulled back, where does this leave us for the third quarter?

While U.S. industrial production continues to fall, industrial production in Japan and the Eurozone has begun to rebound, which bodes well for the future of the U.S. industrial sector. Plus, the supply managers' survey of U.S. manufacturing (ISM), a leading indicator of industrial production in the past, is also moving higher. Add to this the recent better than expected profits in major banks and uncertainty about a recovery may begin to fade. Typically this should initially create a short-squeeze rally in the market forcing out bearish investors, followed by a more extended rally as reported earnings are better than expected. Nevertheless, growth potential and those companies that can generate it will be at a premium, and investors who can recognize it will be handsomely rewarded.

Best Regards,

BEACON STREET CAPITAL, LLC

All results are unaudited and net of fees. Composite returns began January 2002 for the S&P500/*Select* and April 2002 for the DowJones/*Select*, are asset weighted and net of fees. Returns prior to November 2001 and March 2002 are total returns for model portfolios managed by Beacon Street Research, Inc., an affiliated company, on a real-time basis using the same methodology and manager, with stocks selected from those comprising the Standard & Poor's 500-Stock Index and Dow Jones Industrial Average. **Past performance is no indication or guarantee of future performance.**

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Second Quarter 2009 Newsletter

Market Insights

The consecutive quarterly streak of negative returns for the Dow Jones Industrial Average and the Standard & Poor's 500-Stock Index came to a halt in the just ended quarter at six. From the recent equity market lows hit on March 9 the DJIA rallied 29% including an 11% rally in the second quarter, while the S&P 500 rose 37% from March 9 which included an almost 16% gain in the recently ended quarter. This was the best quarterly performance since 2003 for the DJIA and the best since 1998 for the S&P 500. So are we out of the woods yet? It would probably be reasonable to wager that the worst is behind us for this cycle but it may be risky to assume that those economic "green shoots" many are talking about will become vibrant flowers and trees. They may in fact become weeds. Time will tell but let's explore some of the factors that will help determine where we go from here.

The underpinnings of the economy are certainly better than they were a few months ago - most banks are profitable, gasoline prices are falling and technology spending is increasing - but we are still far from what could be called economic strength or growth. Many economists and market seers are touting the above mentioned "green shoots" as proof that the economy will emerge from the recession by the end of the year, and while we are not fans of the term we do believe that "less bad" is better than "more bad" when it comes to economic news. But while we are seeing "less bad" these days there are still a large number of factors that give us pause. While the banking sector has stabilized to the degree that some banks are able to raise new capital and repay Government TARP loans, the demand for commercial loans has shrunk dramatically and as a result banks are not lending. The housing market is still in a funk. Although there have been some signs of "less bad" in housing there is still a massive amount of excess supply that will take several years to work through. The commercial real estate market is sliding as there is dramatic excess capacity in most markets, rents are falling and most businesses are shrinking which hurts their ability to take on more of the excess space. Unemployment is at the highest level in 25 years and will probably reach double digit levels before we start to see any improvement. The high unemployment hurts consumer confidence and individuals are less likely to spend when they are worried about job security. Less spending means more saving and as we said last quarter, while

Exhibit 1:

DowJones/Select

Top Ten Holdings

McDonald's Corp	9.5%
IBM Corp	7.8%
Coca-Cola Co	7.4%
Johnson & Johnson	6.4%
Pfizer Inc	6.3%
Procter & Gamble Co	6.2%
Microsoft Corp	6.2%
AT&T Inc	6.1%
United Technologies	5.6%
Intel Corp	5.3%

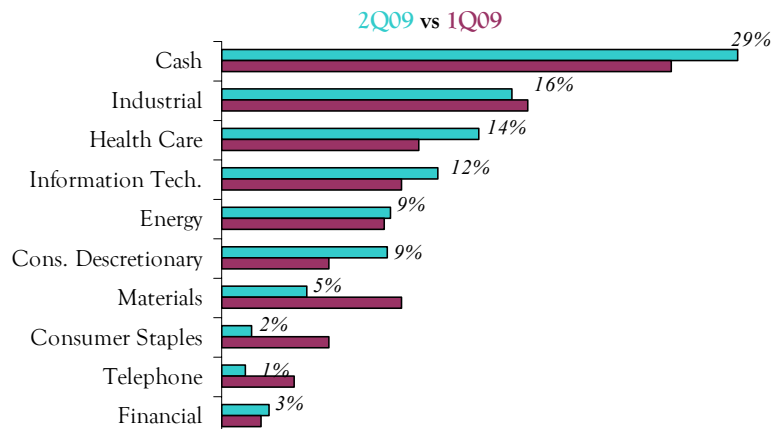
Exhibit 2:

S&P500/Select

Top Ten Holdings

Freeport McMoRan	4.0%
Apple Inc	2.9%
Microsoft Corp	2.6%
Intercontinental Exch.	2.5%
Diamond Offshore	2.3%
Burlington Northern	2.2%
Norfolk Southern	2.1%
Quest Diagnostics	2.1%
Abbott Labs	2.0%
Elli Lilly & Co.	2.0%

Exhibit 3: S&P500/Select Sector Weighting



increased saving is positive in the long-run it is a short-term negative for the economy when everyone saves at the same time at the expense of consumption which makes up as much as 70% of U.S. Gross Domestic Product.

And finally there are questions regarding the massive new programs percolating in Washington and their effects on our economy, taxes and incentives. The battle over healthcare will be a barn-burner. More and more people are beginning to weigh in on the topic with their Senators and Representatives as they understand more of the ramifications for the quality of care and the implications for additional trillions of dollars in Government spending and what this will mean for tax rates. The same is true of pending carbon legislation and the costs this will impose. There is even talk of a second “stimulus” package while the first one has not been well implemented and has done little good. The potential costs are enormous, in the multiple trillions of dollars and will have to be funded through significantly higher taxes on the productive side of the economy. Our view is that higher taxes in general are a bad idea while increasing taxes in a recession is a horrible idea and could be a kiss of death to any progress that has been made.

So where does this leave us? While the dramatic market rally over the past three months has certainly eased the pain and given many a cause to be more optimistic, it seems more likely that the rally was a reversion back to the mean after a significant overshoot to the downside over the previous several quarters as financial assets were being priced almost as if global commerce was about to come to a standstill for all time. There now appears to be growth potential stirring in emerging markets which should help produce a recovery over the next year, but that recovery will probably be weak and painfully gradual with setbacks along the way. In this environment picking appropriate stocks will be extremely important. Therefore, as this all plays out we will continue to invest only in companies with strong financial underpinnings and measureable positive growth potential and we will hold cash if we cannot find enough companies that meet or exceed our standards. We believe this will continue to be a winning strategy over time.

*Herron P. Weems
Managing Director*

Performance Summary

DowJones/Select: We made no changes to our DowJones/*Select* portfolios during the second quarter. Growth potential has not been strong but we opted to hold our positions in order to benefit from the market’s rally and from the high dividend yield of 3.9%.

While our strategy gained a net 8.65% for the quarter, as previously mentioned we owned no bank stocks plus we held a 20% position in cash. The combination of these two factors caused our composite to underperform both the Dow Jones Industrial Average and the S&P500 Index for the second quarter. However, as shown in Exhibits 4, 5 & 6, over longer durations we continue to outperform yet provide a level of downside protection when it is needed the most. Plus, as mentioned above, this strategy has a dividend yield of 3.93%.

Exhibit 4: Net Returns vs Benchmarks					
	2Q09	YTD	1Year	3Yr. Avg.	Inception
DowJones/Select	8.65%	-1.30%	-16.34%	-2.40%	0.60%
Dow Jones Ind. Avg.	11.01%	-3.75%	-25.58%	-8.84%	-2.83%
S&P500 Index	15.93%	3.16%	-26.21%	-8.22%	-1.02%

Exhibit 5: Rolling 3-Year Annualized Excess Returns

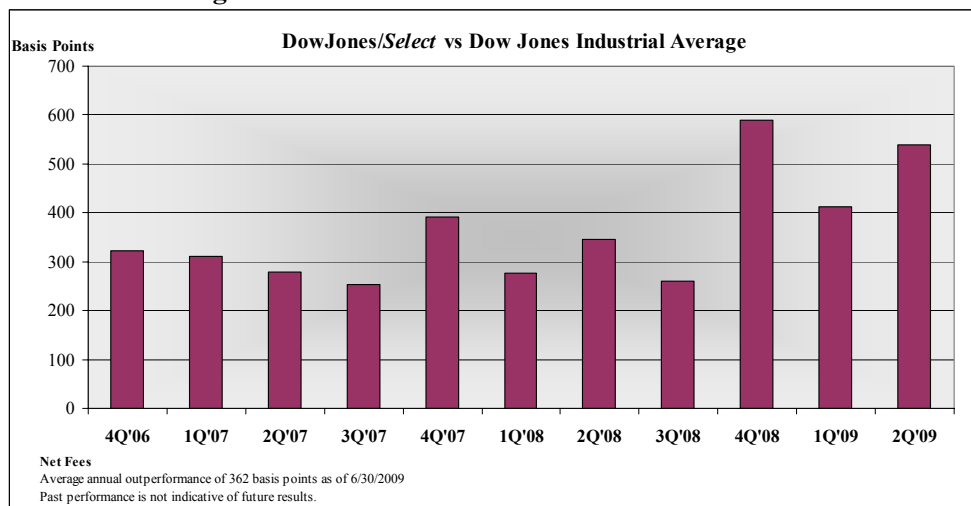


Exhibit 6: 5 Year Statistics (July 2004 – June 2009)				
DowJones/Select vs S&P500 Index				
Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
2.15%	11.14 vs 14.69	7.46	-0.08	0.58

Source: *Informa Investment Solutions*

S&P 500/Select: During the second quarter we purchased three new stocks and sold five for this strategy. We now own a total of 43 stocks in the composite portfolio. This gave us new positions in *Health Care* (Abbott Labs, Watson Pharmaceuticals and Quest Diagnostics, after selling Gilead Sciences). We sold positions in *Materials* (Monsanto & Mosaic) and *Industrials* (Emerson Electric and Illinois Tool Works).

The second quarter and longer-term composite performance for this Large Cap Growth product can be seen in Exhibits 7, 8 and 9. This strategy underperformed both its primary benchmark, the Russell 1000® Growth Index and the S&P500 Index due to not holding any bank stocks and having a 29% position in cash. The one financial stock we do own, Intercontinental Exchange, increased 53% for the quarter. Some of our other big gainers were Diamond Offshore, up 32%; Apple Inc, up 36%; Fluor, up 60%; Textron, up 68%; Freeport McMoran, up 31% and Coach, up 60%. The only losers were AT&T, down 1%, and Monsanto and Gilead Sciences which were both sold. The dividend yield on AT&T, however, is over 6%. The composite portfolio has a dividend yield of 2.7%.

While we lagged in the current quarter, exhibits 7 & 8 illustrate the excess returns generated from this strategy over the longer periods, such as the three-year rolling

annualized excess returns.

Exhibit 7: Net Returns vs Benchmarks					
	2Q09	YTD	1Year	3Yr. Avg.	Inception
S&P500/Select	13.59%	9.92%	-20.34%	-3.11%	1.44%
S&P500 Index	15.93%	3.16%	-26.21%	-8.22%	-1.02%
Russell 1000 Growth Index	16.32%	11.53%	-24.50%	-5.45%	-1.44%

Exhibit 8: Rolling 3-Year Annualized Excess Returns

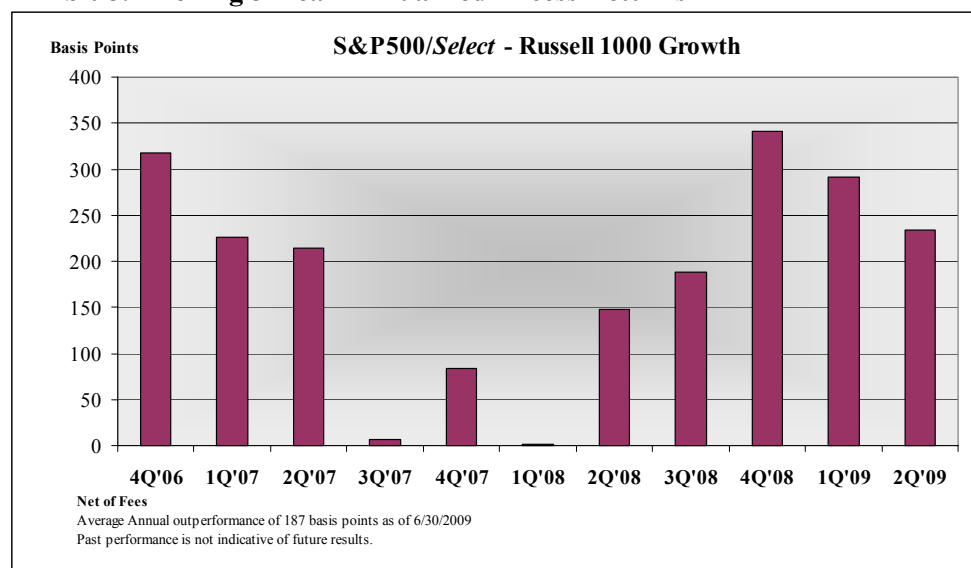


Exhibit 9: 5 Year Statistics (July 2004 – June 2009)				
S&P500/Select vs Russell 1000® Growth				
Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
2.92%	13.96 vs 15.95	4.39	-0.06	0.89

Source: Informa Investment Solutions

Institutional LCG:

Institutional investors seek to gain *alpha* with a high benchmark correlation. They require managers to be fully invested and the increased volatility will be offset by other investment products. Therefore we have created an institutional product, currently a model portfolio, using the actual composite trades of the S&P500/Select product which are adjusted to stay fully invested each quarter.

As table 10 illustrates, excess return over the benchmark (alpha) is attained with a high correlation (RSQR) to the benchmark, but with a higher standard deviation (volatility) vs the benchmark. Furthermore, exhibit 11 shows the excess returns achieved against the Russell 1000® Growth benchmark on a rolling 3-year basis. Furthermore, annual turnover averages 65% which is one-third to one-half that of a typical growth fund.

Exhibit 10: 5 Year Statistics (July 2004 – June 2009)					
Institutional LCG vs Russell® Growth					
Alpha	RSQR	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
3.43%	.95	17.16 vs 15.95	3.65	-0.09	0.89

Source: Informa Investment Solutions

Exhibit 11: Rolling 3-Year Annualized Excess Returns

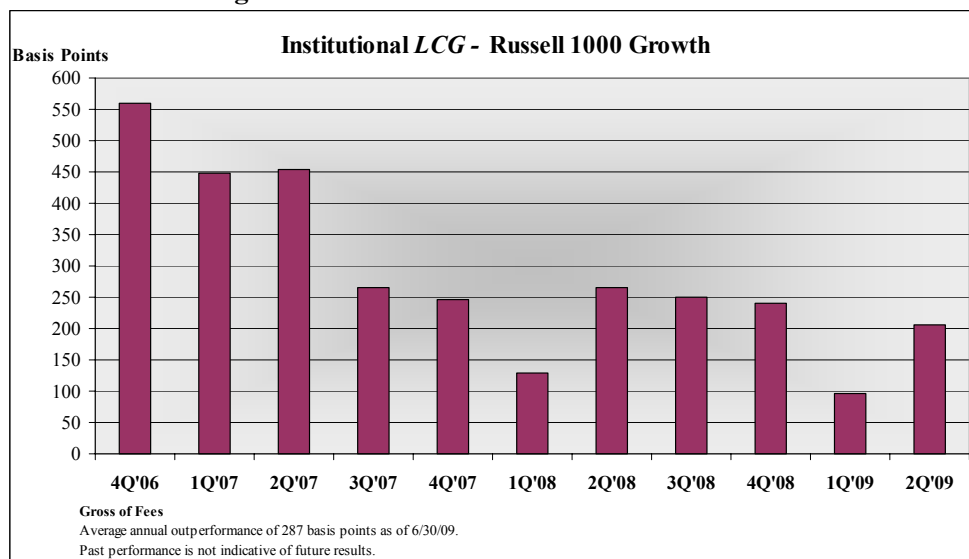


Exhibit 12: Net Returns vs Benchmarks					
	2Q09	YTD	1Year	3Yr. Avg.	Inception
Institutional LCG	19.98%	13.16%	-22.22%	-3.40%	1.47%
S&P500 Index	15.93%	3.16%	-26.21%	-8.22%	-1.02%
Russell 1000 Growth Index	16.32%	11.53%	-24.50%	-5.45%	-1.44%

Source: Informa Investment Solutions

About the Firm

Beacon Street Capital, LLC, provides affluent individuals and business professionals in the Southeast with a conservative, consistent, long-term approach to managing money that has generated excess returns with reduced volatility. Our strategy reflects sound investing principles, delivered with a sophisticated level of financial services. We believe our clients deserve nothing less.

We select for our client's individual equity securities that show positive internal growth potential and financial strength. These securities are held and actively monitored in a separately managed account held by an independent custodian, and we provide detailed quarterly updates.

Whether growing assets for retirement or building a family estate, we believe that wealth properly managed is wealth with a future. Please contact us to explore how we can help you with this process.

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Definitions:

¹ *Standard Deviation*: A measure of volatility, or the range of a portfolio's performance. The more an investment's return varies from its average, the higher the standard deviation. Unlike *beta*, which measures volatility relative to the market, standard deviation is a measure of total risk, or the total variation of the return. The lower the standard deviation the lower the risk, or volatility of the portfolio.

² *Sharpe Ratio*: A measure of risk-adjusted return. The Sharpe Ratio incorporates the standard deviation and the excess returns over 90-day Treasury bills to measure the reward per unit of risk. The higher the ratio over 0.0 the better the investment's historical risk-adjusted performance.

³ *Information Ratio*: One of the most important tools for measuring the performance of an active manager against an appropriate benchmark. It is the ratio of excess returns to standard deviation of excess returns of the portfolio, and is used to estimate the return added by the manager for each 1% of risk added by the manager. A 5-year average *Information Ratio* over 0.50 is considered "good", over 0.75 "very good", and over 1.00 "exceptional".

⁴ *Beta*: Measures volatility in relation to the benchmark (or market). A portfolio with a *beta* of 1.5 means that the portfolio return is expected to move 1.5 times the benchmark return. If the benchmark return is 10%, the portfolio return is expected to be 15%. If the benchmark return is -10%, the portfolio return is expected to be -15%. A low *beta* represents lower volatility, which is often associated with low returns; a high *beta* represents higher volatility, which is often associated with high returns. It is unusual to have a combination of high returns and low volatility. However, a good manager picking outstanding stocks can provide excess returns without adding excess risk. This is call "adding *alpha*".

⁵ *Alpha*: Measures the return added by the manager. It is the excess return over the benchmark return, adjusted for volatility.

⁶ *R-Square*: Measures the correlation between the portfolio return and the benchmark return, or how well they fit from a statistical standpoint. A correlation of a 1.00 means a perfect fit and any number over .70 means the *Alpha* and *Beta* measurements are meaningful.

⁷ *Tracking Error*: The standard deviation of the excess returns. The lower the tracking error the lower the risk.

⁸ *Russell-1000® Growth Index*: This Index is more representative of the overall large capitalization market and thus more representative of our investment style. It is also widely used by institutional consultants, such as *Informa Investment Solutions Inc.*, which tracks and reports our performance through its *PNS Manager Database*, when seeking investment managers for their clients.