

BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

Institutional-level Money Management for Individuals

October 1, 2009

Highlights

- The second-quarter rally in stocks carried over into the third-quarter, pushing our **Institutional LCG strategy up 29.7%** year-to-date.
- Relative to our peer group, Beacon Street Capital was once again named **Top Gun Manager** by PSN for the period ending June 30, 2009.
- 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 new pathway to alpha.

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.

Third Quarter 2009 Newsletter

In our last newsletter we wrote that stocks in the third quarter should show “a more extended rally as reported earnings would be better than expected.” Investors appear to have agreed and pushed the Dow Jones Industrial Average (DJIA) up 14.98% and the S&P500 Index up 15.61%. This puts the DJIA and S&P500 up 10.7% and 19.3% year-to-date, respectively, but still well below their 2008 peaks.

By comparison our S&P500/*Select* composite gained 10.76% for the quarter and is up 21.78% YTD despite the 28% that remains in cash and minimal exposure to financials. Our DowJones/*Select* gained 9.51% for the quarter and 8.09% YTD, held back by its continued non-exposure to financial companies and its 19% position in cash. In contrast our fully invested Institutional *LCG* strategy gained 15.8% and 29.2% for the quarter and YTD, respectively. However, more relevant to long-term investors is the fact that since this bear market began last year our S&P500/*Select* has beaten the S&P500 Index by 743 basis points while our DowJones/*Select* has beaten the DJIA by 652 basis points. Even more revealing are the returns since inception (*see pages 4, 5 & 6*).

Fully 84% of the extension of the rally took place in the first month (July) of the quarter as the market adjusted, aided by a short-squeeze, to second quarter reported profits. Much of that profit improvement was due to cost cutting, which does nothing to stimulate balance sheet driven growth potential and is why we maintain a high level of cash in our traditional strategies. Add to this the fact that the velocity of money has declined and remains extremely subdued; government stimulus spending is not stimulating; and unemployment is increasing as is the potential for higher taxes, which have a negative multiplier effect on growth, and market gains for the fourth quarter may be hard to achieve. As in previous bear markets this early recovery has been led by weaker companies with little growth potential that are perceived to be under-valued. If they do not recover the market readjusts as it did in the last bear market which saw three false bottoms. Regardless, certain companies will show underlying growth potential and those are the ones we seek.

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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**Exhibit 1:
DowJones/Select**

Top Ten Holdings

McDonald's Corp	8.9%
IBM Corp	8.5%
Coca-Cola Co	7.8%
Caterpillar Inc	7.3%
Procter & Gamble Co	6.6%
Microsoft Corp	6.6%
Pfizer Inc.	6.5%
Johnson & Johnson	6.4%
AT&T Inc	6.3%
Intel Corp	5.9%

**Exhibit 2:
S&P500/Select**

Top Ten Holdings

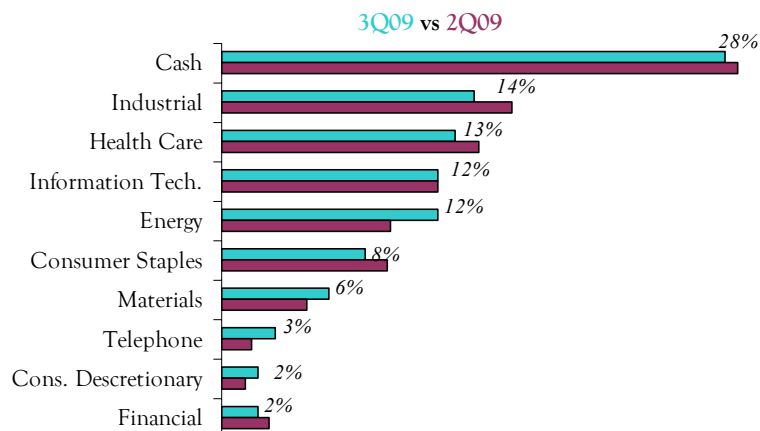
Freeport McMoRan	3.9%
Apple Inc	3.4%
Diamond Offshore	2.4%
FMC Technologies	2.3%
McDonald's Corp.	2.3%
Burlington Northern	2.2%
IBM Corp	2.1%
Verizon Comm.	2.1%
Microsoft Corp	2.0%
Pactiv Corp.	2.0%

Given the severity of the decline in March it is understandable that the S&P 500 and the Dow Jones Industrial Average (DJIA) would be higher by the end of the third quarter. However, the past two quarters have been the best two individual quarters for the S&P 500 since the fourth quarter of 1998, and for the DJIA the past two quarters are the strongest six months since the period ending March 1987, 22 years ago. The magnitude of the moves are astonishing for such a short period of time and make us continuously pause to ask if the move is too much too fast or if there are more gains to be earned if we just hang on for the ride. While it is difficult to know the answer to the question it is certainly possible to examine some items and data that may help to develop some conclusions as to what the future may hold.

The good news is that many economists, and even Ben Bernanke, are saying that economic data have finally pointed to an end to the recession. Additionally the Federal Reserve has signaled that it will keep short-term interest rates low "for an extended period" to help this nascent recovery. Financial conditions have also improved in the bond market as interest rates on corporate securities have declined relative to benchmark US Treasury notes and bonds. Inflation has remained muted, corporate earnings have been exceeding expectations the past two quarters, oil and gas prices have remained somewhat steady the past few months and valuations in the stock market do not appear to be extended even after the huge run-up previously mentioned. Some additional points are that the Leading Economic Indicators index has been building steam the past few months, manufacturing activity as reported in the ISM Manufacturing New Orders Index has rebounded nicely over the past several months, housing prices are showing signs of stabilizing as housing inventory levels have declined and productivity levels have held up nicely which could provide a positive force for earnings if the economy continues to emerge from the recession.

However, there are of course still headwinds with which we must contend. The average consumer is still extended and heavily indebted even after the increase in the savings rate we have seen this year. This raises the question whether the recent bounce in economic activity is sustainable and whether end demand can continue to grow with the weakness of consumers. Government spending has been driving a large portion of demand recently and while there is still a large amount of

Exhibit 3: S&P500/Select Sector Weighting



“stimulus” money that has not been spent the eventual removal of this source of demand will provide resistance at some point. Loan defaults continue to rise as banks continue to close and this will certainly make lenders less willing to provide credit to bring lending back to the levels of recent years. Commercial real estate could also be a problem. A collapse of that market similar to what we have experienced in the residential market would be a disaster if it were to occur. Office and retail space vacancies are large and expanding, with tens of thousands of commercial properties in the U.S. now in a “distressed” state. These distressed properties are less than 50% occupied. This certainly bears watching.

Where we go from here is uncertain but it is safe to say that the fear and pessimism experienced by investors six months ago is now in the rearview mirror. The headwinds described above will have to be worked through and while it is not clear what could send the economy back into a recession the risk of such an event certainly exists. If we are in the midst of a long-term secular bear market, as many have argued, the rally we are experiencing is nothing more than a strong rally within the context of a long-term bear market. While we will only know for sure looking back years from now, evidence exists now that causes us to worry. One is the fact that increasing profits at companies are coming mainly through cost cutting rather than expanding revenues. This cost cutting includes laying off workers which helps explain the almost 10% current unemployment rate. Another is that high unemployment dampens consumer spending and borrowing which holds back expansion of GDP. On top of this the government is borrowing at unprecedented levels, spending at unsustainable levels, and developing new programs (cap and trade, health care “reform” etc.) that will require vastly more borrowing and much higher taxes on the productive side of the economy. These government actions do not appear to be the proper prescriptions to pave the way for a sustainable recovery.

The bottom line is we do not have a crystal ball but our analysis tells us the environment we are facing contains significant hurdles for investors and that appropriate levels of caution remain justified. We will continue to seek financially sound companies with measureable positive growth potential but we remain more than satisfied to hold cash in our retail accounts if we cannot find enough solid companies to fill the portfolios.

Herron P. Weems
Managing Director

Performance Summary

DowJones/Select: We added to our position in Verizon Communications during the quarter and sold our position in United Technologies. Although this strategy gained 9.51% for the quarter it was hindered by 19% cash and no financial stocks. As a result it underperformed the Dow Jones Industrial Average and the S&P500 Index by a substantial margin. As previously mentioned, we continue to outperform over a longer period while providing a level of downside protection with the growth potential we capture and the excess cash we currently hold. That strategy will become even more important as we move further into this new environment.

Exhibit 4: Net Returns vs Benchmarks					
	3Q09	YTD	1Year	5Yr. Avg.	Inception
DowJones/Select	9.51%	8.09%	- 4.00%	2.85%	1.81%
Dow Jones Ind. Avg.	14.98%	10.66%	-10.52%	-0.74%	-0.91%
S&P500 Index	15.61%	19.26%	-6.91%	1.02%	0.88%

Exhibit 5: Rolling 3-Year Annualized Excess Returns

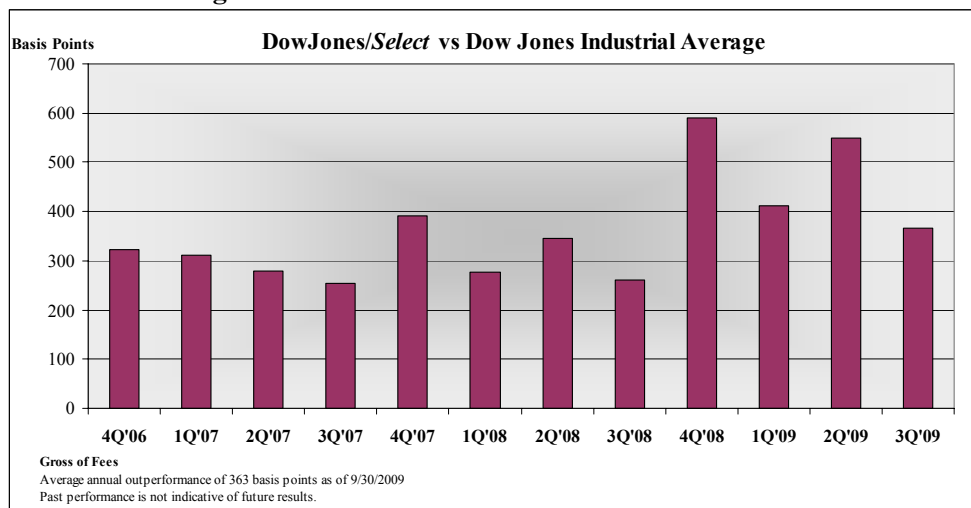


Exhibit 6: 5 Year Statistics (October 2004 – September 2009)				
DowJones/Select vs S&P500 Index				
Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
2.08%	11.82 vs 15.96	8.00	0.10	0.39

Source: Informa Investment Solutions

S&P 500/Select: Gains were primarily in materials, energy and industrial stocks with only one sector showing a loss and that was *Financials* where we own only one stock - Intercontinental Exchange. During the third quarter we purchased four new stocks and sold six, while trimming some positions and adding to others. This gave us new positions in *Consumer Staples* (Hershey Co), *Materials* (Pactiv Corp), *Industrials* (Raytheon Co after selling United Technologies Corp and W.W. Grainger Inc) and *Energy* (FMC Technologies Inc after selling National Oilwell Varco Inc). We added to our positions in Coca-Cola Co, IBM Corp, Microsoft Corp and Verizon Communications; and trimmed our positions in Freeport McMoran Copper and Gold Inc while selling Coach Inc, Norfolk Southern Corp and TJX Cos. We now own a total of 41 stocks in the composite portfolio.

The third 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, as well as the S&P500 Index, due its lack of bank stocks and also having a 28% position in cash. The one financial stock we do own, Intercontinental Exchange, declined 13% after being up 53% last quarter. Some of our big gainers were sold during the quarter, such as National Oilwell Varco, up 60%; TJX, up 34%; Norfolk Southern, up 53%; and Freeport McMoRan, which we trimmed, up 39%. FMC Technologies, a recent purchase, was up 33%. Other than Intercontinental Exchange, only two stocks showed minor losses for the quarter – Eli Lilly & Co, down 4% and Quest

Diagnostics Inc, down 8%.

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					
	3Q09	YTD	1Year	5Yr. Avg.	Inception
S&P500/Select	10.79%	21.78%	0.52%	3.05%	2.75%
S&P500 Index	15.61%	19.26%	-6.91%	1.02%	0.88%
Russell 1000® Growth Index	13.97%	27.11%	-1.85%	1.86%	-0.01%

Exhibit 8: Rolling 3-Year Annualized Excess Returns

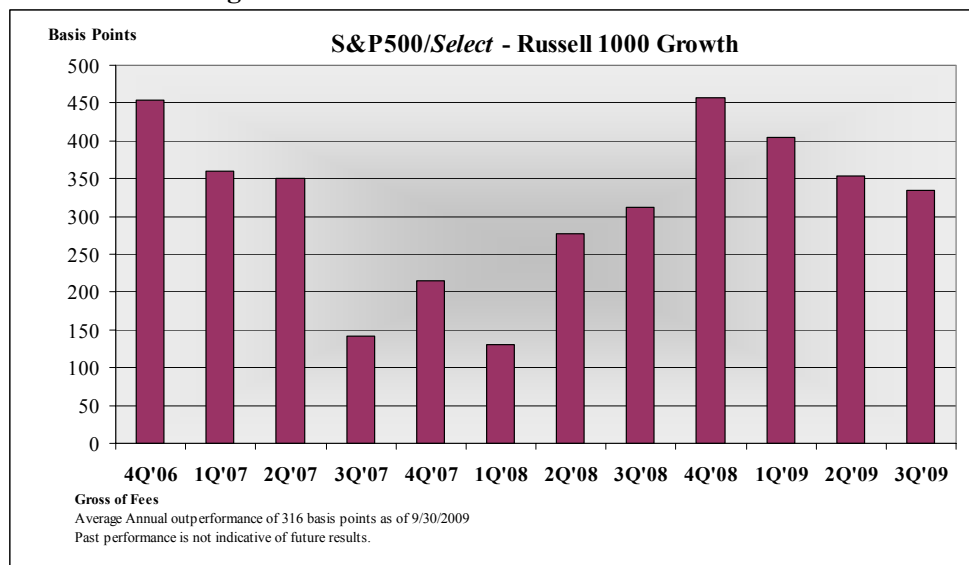


Exhibit 9: 5 Year Statistics (October 2004 – September 2009)				
S&P500/Select vs Russell 1000® Growth				
Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
2.02%	14.66 vs 16.18	4.23	0.10	0.58

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 that uses the actual real time transactions (stocks, price and date) of the S&P500/Select product and adjusts the quantities 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). Exhibit 11 shows the excess returns achieved against the Russell 1000® Growth benchmark on a rolling 3-year basis. Furthermore, 5-year average

annual turnover is 54% which is one-third to one-half that of a typical growth fund.

Exhibit 10: 5 Year Statistics (October 2004 – September 2009)					
Institutional LCG vs Russell 1000® Growth					
Alpha	RSQR	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
2.85%	.93	16.86 vs 16.18	4.52	0.12	0.67

Source: Informa Investment Solutions

Exhibit 11: Rolling 3-Year Annualized Excess Returns

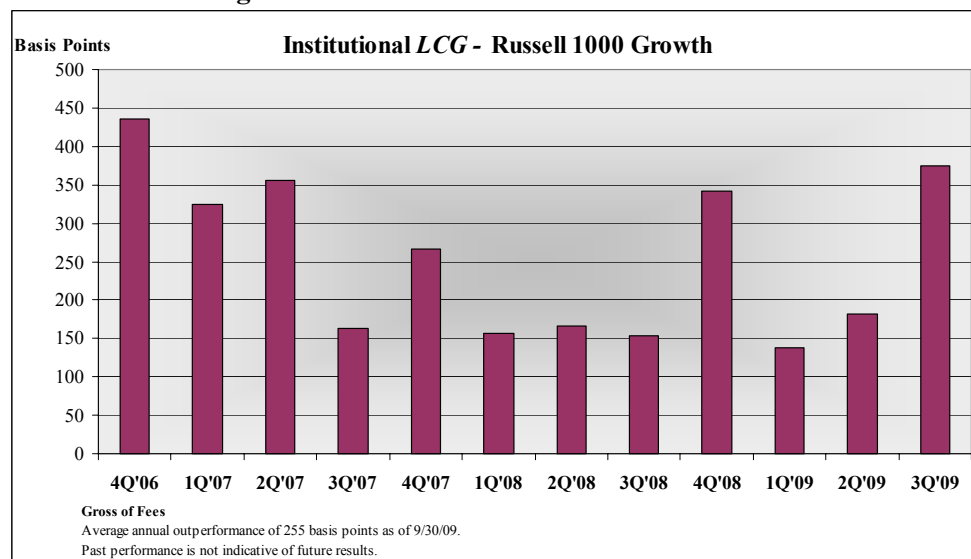


Exhibit 12: Gross Returns vs Benchmarks					
	3Q09	YTD	1Year	5Yr. Avg.	Inception
Institutional LCG	15.75%	29.23%	5.57%	4.89%	4.36%
S&P500 Index	15.61%	19.26%	-6.91%	1.02%	-0.88%
Russell 1000® Growth Index	13.97%	27.11%	-1.85%	1.86%	-0.01%

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 actively monitored and held by an independent custodian in a separately managed account, and we provide detailed quarterly updates to each client of their holdings and performance.

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.

Third Quarter 2009 Newsletter

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.