BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

Institutional-level Money Management for Individuals

January 2010

Fourth Quarter 2009 Newsletter

Equity markets performed well in the fourth-quarter with the Dow Jones Industrial Average and S&P 500 Index up 7.4% and 6%, respectively. Despite higher than normal levels of cash, our DowJones/*Select* composite returned 7.6% while our S&P500/*Select* composite returned 5.7% for the quarter. For the full year, the DowJones/*Select* returned 17.2% while the DJIA posted an 18.8% return; and the S&P500/*Select* returned 29.64% compared to 26.5% for the S&P500 Index.

As the fourth-quarter unfolded we saw many companies with higher earnings but no positive change in growth potential. Earnings grew through cost cutting which is difficult to repeat, while revenue growth was weak to negative in most instances. The allocation of capital through the balance sheet was more defensive with inventory and debt levels declining, while payables and cash levels increased to shore up liquidity. Capital spending was also not robust. However, all of this could reverse should the money supply begin to expand through the banking system; the unemployment rate start to drop and aggregate demand begin to exceed supply. Exiting the recession will be a slow process and not without peril, but when has it not been?

While 2010 will be challenging to both corporate managers and investors alike, one should remember that it is a market of individual stocks rather than a stock market as a whole from which to seek opportunities. As long as the engine of capitalism is not too much shackled by government intervention the ingenuity of Main Street will create good investment opportunities, though they may be few and far between.

Best Regards,

BEACON STREET CAPITAL, LLC

Highlights

- *AUM reached $21 million; **Institutional LCG** strategy to receive assets for 1Q2010.*
- *Relative to our peer group, Beacon Street Capital was once again named among the **Top Gun Managers** by PSN as well highly rated again by **Money Manager Review** for the period ending September 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:

1. Institutional *LCG*
2. S&P500/*Select*
3. DowJones/*Select*

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Exhibit 1:

DowJones/*Select*

Top Ten Holdings

McDonald's Corp	9.6%
Microsoft Corp	7.8%
Travelers Cos.	7.3%
Pfizer Inc.	7.2%
Hewlett Packard	7.1%
Verizon Comm.	7.1%
Procter & Gamble Co	6.9%
Johnson & Johnson	6.8%
Coca-Cola Co	6.7%
Caterpillar Inc	6.5%

Exhibit 2:

S&P500/*Select*

Top Ten Holdings

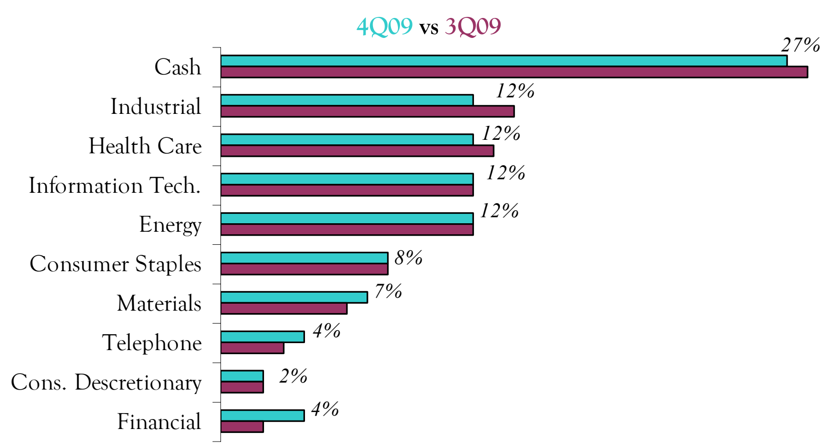
Freeport McMoran	4.3%
Apple Inc	3.5%
FMC Technologies	2.5%
McDonald's Corp.	2.4%
Diamond Offshore	2.3%
Microsoft Corp	2.3%
Flir Systems	2.2%
Verizon Comm.	2.2%
BP PLC	2.0%
Raytheon	2.0%

Market Insights

Looking back, this was one of those years that reminded us what a roller coaster the stock market can be – and also of the dangers of conventional thinking. After the collapse in global financial markets in the fall of 2008 and the resulting pummeling taken by stock markets around the world, the consensus in January was that the worst was behind us. That presented a sharp reminder of the danger of conventional thinking as by early March the market was down by another 25%. At that point the consensus shifted and there was growing sentiment that we might be entering a long period of economic stagnation. We even heard respected economic forecasters talk of a significant chance of another Depression. It was at this point that coordinated spending efforts by governments around the world started to have some impact and we began to see signs of an economic recovery. From the market's bottom on March 9 through the end of 2009 global markets were up by 50% to 65%. The last year was a sharp reminder that it is impossible to predict short-term market movements.

Some of the positive factors affecting the market at this point include the fact that the economy continues to gather some steam having posted positive GDP growth in the third quarter, and some are calling for growth of as much as 5% for the fourth quarter 2009 period. The Fed has also reiterated that it will continue to hold its target short-term interest rate at an extremely low level for "an extended period" and larger businesses have found their ability to access credit and the credits markets easier than at any time since the financial debacle started. On the negative side crude oil prices, at close to $80 per barrel, are nearly double the levels at the start of 2009 while still significantly below the record levels achieved in 2008. Additionally the fiscal spigot remains wide open with borrowing and spending at unprecedented levels and this potentially becomes a ticking time bomb for inflation and the higher interest rated associated with inflation. Other factors to watch that could become headwinds moving forward include the fact that inflation remained muted although the large government deficits and spending mentioned above have kept concerns about the future inflation impact alive; corporate earnings results in recent quarters have been better than projected although these results were driven largely by cost cutting rather than by top-line growth required to grow the economy and stock and bond valuations appear to be in the range of historical averages but these can get over or under extended at any time.

Exhibit 3: S&P500/*Select* Sector Weighting



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Despite the improvement in the credit markets, all is not yet right for the financial system as a whole. Losses on consumer loans, mortgages and commercial real estate loans continued to put pressure on bank balance sheets throughout 2009. While the residential housing market has shown signs of improvement commercial real estate prices have continued to drop, and, as a result, commercial real estate loan defaults have forced write-downs on bank balance sheets. These write-downs have particularly affected small and mid-sized regional banks, and have been a major factor in the steady increase in bank closures in 2009. Despite these challenges for many banks the world banking system remains awash with liquidity. In the U.S. the extraordinary monetary actions of the Federal Reserve have dramatically expanded the level of bank reserves, with "excess reserves" having risen more than ten-fold since mid-2008. These reserves have not worked their way into the money supply due to the levels of caution of both lenders and borrowers amid weakened capital positions and growing loan defaults. If this were to change and increased lending was to push these reserves into the system, inflation expectations could skyrocket with a significant negative effect on interest rates. If the Fed does not do its job by draining these reserves as required the effect on the economy could be quite negative. This is definitely something to watch and be aware of.

We still worry about many of the same factors we discussed last quarter including the high unemployment rate which dampens consumer spending, the fact that companies continue to cut costs to grow earnings even as revenues are flat or declining and the continued unprecedented levels of government borrowing and spending that will require new and much higher taxes in the future. We worry because the view to the future remains cloudy rather than transparent as investors and businesses prefer.

Regardless, even with volatility and uncertainty, there are still plenty of opportunities to make money in the market with discipline and a proven technique. We will certainly remain cautious but we will also relentlessly seek those financially sound companies with measureable positive internal growth potential that will increase the assets of our clients.

Herron P. Weems
Managing Director

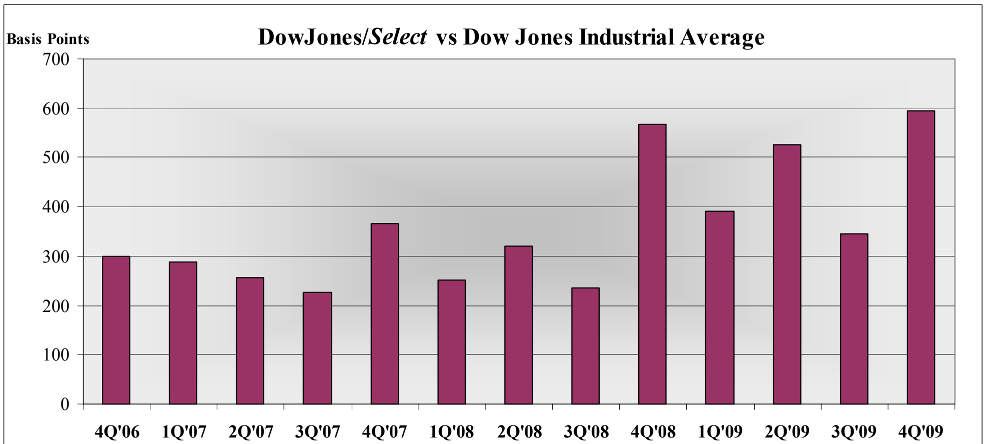
Performance Summary

DowJones/*Select*: We sold IBM during the quarter, booking a significant long-term gain. We also added Hewlett Packard Co (HPQ) and Travelers Companies (TRV), a relatively new addition to the DJIA. The net impact of these transactions was to lower cash levels to 15% while maintaining a low turnover rate of 16% for the year. The current yield remains at 2.7%.

Our best performing stock this quarter was Microsoft Corp, up 19%. The second best performance was Caterpillar Inc, adding another 11% gain to the 55% gain it accomplished in the previous quarter. Pfizer Inc, Verizon Communications and McDonald's Corp returned close to 10% and the rest of the stocks in the portfolio finished in the black. Travelers Companies added over 2% after its purchase. Below is a summary of returns against the benchmarks.

Exhibit 4: Returns for the period ending December 31, 2009	4Q09	1Year	5Yr. Avg.	Total Since Inception
DowJones/*Select*	7.58%	17.15%	3.870%	32.58%
Dow Jones Ind. Avg.	7.37%	18.82%	-0.67%	0.23%
S&P500 Index	6.04%	26.46%	0.42%	13.44%

Exhibit 5: Rolling 3-Year Annualized Excess Returns



Gross of Fees
Rolling 3-Yr. Average Annual Outperformance of 242 basis points since inception.
Past performance is not indicative of future results.

Exhibit 6: 5 Year Statistics (January 2005 – December 2009)

DowJones/*Select* vs S&P500 Index

Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
2.51%	11.81 *vs* 16.04	7.95	0.11	0.46

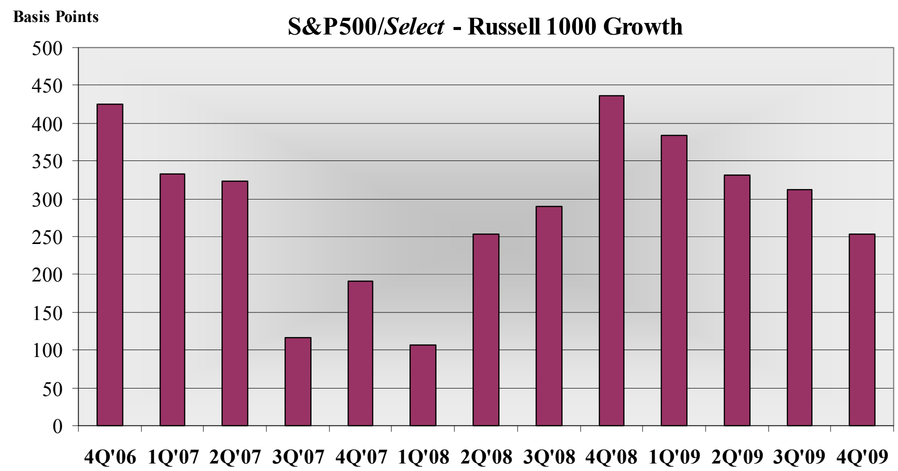
Source: *Informa Investment Solutions*

S&P 500/*Select*: Three new stocks were purchased while six positions were sold, putting total holdings at 39 names. Gains for the quarter were across the board with 11 holdings generating returns over 10% while 12 grew over 5% with no sector really standing out. One of the stocks we added was Travelers Companies (TRV) which doubled our holdings in the financial sector to 4.2%. We intentionally do not own a significant number of financial stocks due to the extreme levels of risk and volatility that continue to be experienced in the sector. For the banks a debacle in commercial real estate loans could happen at any time. We still hold a healthy dose of cash, approximately 27% on a composite level, which is a comfort given the level of uncertainty and head-winds going into 2010.

Our intent with the S&P500/*Select* strategy remains to neither trade rapidly (turnover for the year is 39%) nor time the markets, but instead to add value over time by analyzing companies in a unique fashion that will allow us to capture growth potential while we also attempt to hold down risk as much as possible. With that in mind the fourth quarter and longer-term composite performance for this Large Cap Growth product can be seen in Exhibits 7, 8 and 9.

Exhibit 7: Returns for the period ending December 31, 2009				
	4Q09	1Year	5Yr. Avg.	Total Since Inception
S&P500/*Select*	5.68%	29.64%	3.61%	40.82%
S&P500 Index	6.04%	26.46%	0.42%	13.44%
Russell 1000® Growth Index	7.94%	37.21%	1.63%	7.86%

Exhibit 8: Rolling 3-Year Annualized Excess Returns



Gross of Fees
Rolling 3-Yr. Average Annual Outperformance of 223 basis points since inception.
Past performance is not indicative of future results.

Exhibit 9: 5 Year Statistics (January 2005 – December 2009)				
	S&P500/*Select* vs Russell 1000® Growth			
Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
1.75%	14.47 *vs* 16.30	4.35	0.07	0.50

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. *This strategy will go "live" in the first quarter of 2010.*

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.

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Exhibit 10: 5 Year Statistics (January 2005 – December 2009)

Institutional *LCG* vs Russell 1000® Growth					
Alpha	RSQR	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
2.97%	.93	16.82 *vs* 16.30	4.44	0.12	0.71

Source: *Informa Investment Solutions*

Exhibit 11: Rolling 3-Year Annualized Excess Returns

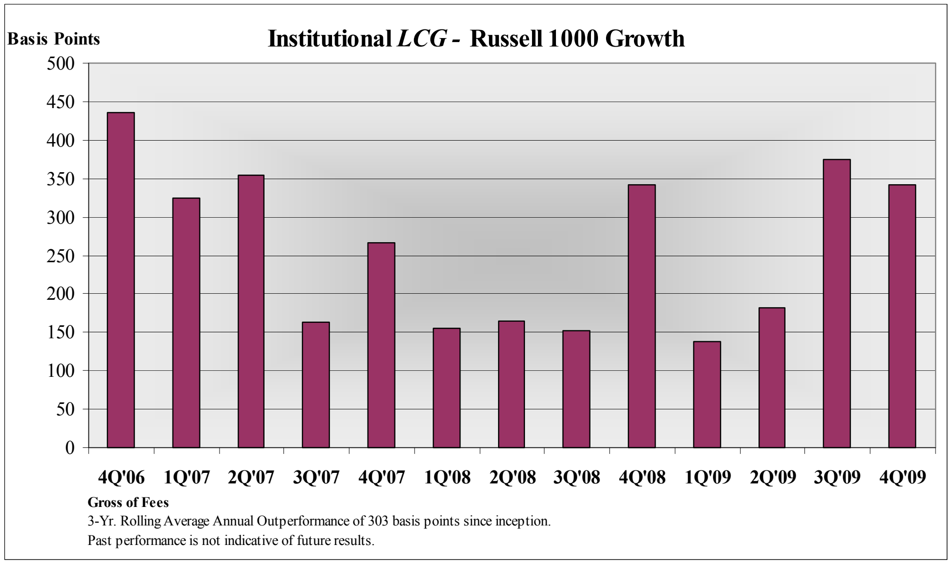

Exhibit 7: Returns for the period ending December 31, 2009

	4Q09	1Year	5Yr. Avg.	Total Since Inception
Institutional *LCG*	6.03%	37.03%	4.77%	47.61%
S&P500Index	6.04%	26.46%	0.42%	13.44%
Russell 1000® Growth Index	7.94%	37.21%	1.63%	7.86%

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.

Definitions:

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[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.