

RICHARD C. YOUNG & CO., LTD.

Investment Advisors

98 William Street
Newport, Rhode Island 02840
Phone: (401) 849-2137
(800) 843-7273
Fax: (401) 849-0002
www.younginvestments.com

Matthew A. Young
President and Chief Executive Officer

500 5th Avenue South
Naples, Florida 34102
Phone: (239) 213-1789
(888) 456-5444
Fax: (239) 213-0770

July 31, 2009

Dear Client,

In 1993, I lived in Palo Alto, California, working for The Benham Group mutual fund company. I worked with many shareholders interested in the purchase of equity funds, but what I remember most was all the activity generated from the Benham Target Maturity Trusts. The Target funds were portfolios comprising Treasury zero-coupon bonds. Zeros, especially longer ones, had been red-hot since the 1980s as a secular decline in interest rates dramatically increased the securities' value.

It was a great time to be an investor! Invest in full-faith-and-credit-pledge U.S. zeros and make a killing along the way. In fact, when Richard C. Young & Co., Ltd., was founded in 1989, we invested only in U.S. Treasuries. Those, as they say, were the good old days.

Today, we no longer have the tailwind of a secular decline in interest rates. Instead, we have the setting for nasty inflation and rising interest rates. As rates rise, we will desire a more defensive stance with our fixed-income investments. To become more defensive, we have initiated two strategies. First, we are beginning to wind down preferred holdings. Given that preferreds are longer-term securities, we want to move away from them based on our view of rising interest rates. Second, we are investing in corporate bonds, creating a ladder of short- and intermediate-term positions. As interest rates rise, we will roll the ladder up. Today, we are targeting an average portfolio maturity in the three-year range.

As I have written before, we seek out broad-based themes and trends that we can capitalize on for clients. Our zeros strategy, fueled by declining interest rates, worked well in the past. Today, I feel that one of the most embedded secular trends in the world is agribusiness. Many basic fundamentals make the agriculture-based sector appealing, including increasing global population, increasing incomes in emerging markets, improving diets, decreasing arable land, and a focus on alternative energy sources.

Everyone needs to eat, and there are an increasing number of mouths to feed. The United Nations estimates that the world's population will increase to nine billion in 2050 from six billion today. According to Joachim von Braun, director general at the International Food Policy Research Institute, "Land is scarce and will become scarcer as the world has to double food output to satisfy increased demand by 2050. With limited land and water resources, this will automatically lead to increased valuations of productive land. And it goes hand in hand with water. Water scarcity will probably increase more than land."

"Diversification and patience built on a foundation of value and compound interest."

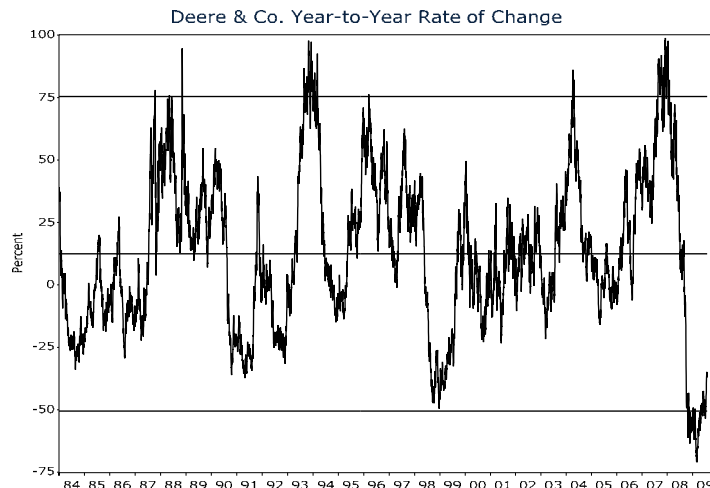
As the world economy expands, many countries, including China and India, will experience rising wealth levels. With increased income, the populations will demand more protein-rich diets, significantly influencing meat consumption. Meat consumption in China, for example, tripled in the last 20 years as per capita income grew, and is expected to continue further. The demand for grain will further increase due to the large amounts of grain required to feed livestock. According to the USDA, nearly seven pounds of grain are needed to provide one pound of beef. The increase in demand for grain is already evident, as agricultural company Monsanto noted in a recent advertising campaign. Monsanto estimates that in seven of the last eight years, the global consumption of grain has outpaced total production.

As the population increases, so too will the demand for farmland. What is not growing is the supply of farmland. The soaring global population squeezes out the availability of arable, fertile land. As cities and suburbs continue to sprawl, less arable land becomes available for agriculture. According to data from the United Nations, in 1960 there were 1.1 acres of arable farmland per capita globally. By 2000, that number had fallen to 0.6 acres.

Climate concerns and high oil prices have placed significant focus on renewable fuels, including ethanol. Ethanol is primarily manufactured from crops including sugar cane, wheat, and corn. According to the USDA, ethanol production in the U.S. has increased from less than 3 billion gallons in 2003 to over 6 billion gallons in 2007 and is estimated to exceed 12 billion gallons in 2020.

In my view, elements are in place for a long-term boom for most things related to agriculture, including farmland, fertilizer, and farming equipment. We recently have begun to purchase Market Vectors Agribusiness (MOO). MOO tracks the DAXglobal agribusiness index, which includes Deere and Potash of Saskatchewan.

Deere is an intriguing stock today for several reasons. First, Deere should benefit from the agriculture boom through its manufacturing and distribution of a full line of farm equipment. Second, our chart indicates that while the stock has recently bounced up from below minus two standard deviations, there is still room to grow. Lastly, Deere is a big exporter. When the dollar declines, big U.S. exporters with pricing power should benefit as it costs less for foreigners to buy our products.



Canadian fertilizer maker Potash of Saskatchewan produces about a quarter of the world's potash. Potash, which contains quality-enhancing nutrients important for agriculture, is used in 150 countries. The largest importers of potash are the heavily populated countries of China, India, and Brazil. As a rising population consumes more food, farmers will need to increase the quality and quantity of their crop yield. Improving the quality of fertilizer, of which potash is a crucial element, is an efficient way to accomplish this. Further demand for commodities and natural resources should piggyback on agribusiness's growth. For example, a substantial amount of petroleum is required to produce potash, operate farming equipment, and transport food across the globe.

Agriculture is just one trend that will keep up the demand for resources. Global infrastructure spending will continue. Last year, the Organization for Economic Cooperation and Development (OECD) estimated that worldwide investments in power generation, water, and transportation infrastructure projects would exceed \$40 trillion by 2030—and that was before the announced stimulus-spending programs from countries around the world. Also, many of the world's 6.7 billion inhabitants are simultaneously striving to improve their living standards and to modernize, a fact that by itself will create a huge commodities demand. Some of our favored funds, including iShares Global Infrastructure, T. Rowe Price New Era, and iShares Oil & Gas Exploration, stand to benefit from these trends.

The upcoming trend toward higher interest rates and inflation is making us more defensive with our fixed-income investments. The same holds true with equities. As always, we are focusing on dividend-paying securities. Recent trades in our Retirement Compounders equity portfolios have been made to boost overall yield. Higher-yielding stocks are less sensitive to interest rate changes than low-yielding stocks. As a comparison, think of how a zero-coupon bond compares to a traditional bond. Zeros, which pay no interest, have a duration equal to their time to maturity. A traditional bond, with regular interest payments, has a duration that is less than its maturity. Duration, of course, is a measure of interest rate risk. The longer the duration, the greater the interest rate risk. In an environment of rising interest rates, higher-yielding stocks should fall less than stocks without a yield.

We are also interested in companies and industries with pricing power. Capacity utilization can be a good indicator of pricing power. The higher the utilization of an industry, the greater its pricing power. Historically, capacity utilization in industries including consumer staples and utilities does not drop significantly or remain depressed for long. In an inflationary environment, then, it may be reasonable to expect consumer staples companies and utilities companies to maintain strong pricing power. We expect the companies in our favored Vanguard Consumer Staples and SPDR Utilities exchange-traded funds (ETFs) to have reasonable pricing power in the years ahead.

My May 2009 letter listed four big benefits to owning exchange-traded funds. Next month, I'll feature a fifth benefit that is especially important during volatile market cycles. Also, I'll profile a country positioned to benefit from continued global demand for resources and food.

Have a good month, and, as always, please give us a call at 800-843-7273 if your financial situation has changed or if you have questions about your investment portfolio.

Warm regards,



Matthew A. Young
President and Chief Executive Officer

P.S. What is the most overlooked component today in investment portfolios? My suspicion is that fixed-income securities have not been given proper scrutiny. For most investors, the tendency is to focus primarily on stocks and equity funds. However, many retired and soon-to-be retired investors have as much as 50% invested in fixed income. This is too large a component to be overlooked. The combination of the government's printing of money, bailouts of corporate America, and massive borrowing will almost certainly lead to inflation and higher interest rates. In such an environment, longer bonds will get hurt. Last month, in the Analyst's Corner, we showed that maturities up to six years offer the most compelling value. In our view, investors purchasing long-term bonds are not being adequately compensated for the maturity risk they are taking. If you are concerned about fixed-income securities held outside of our management, please give us a call.

P.P.S. The Retirement Guide of a major financial publication recently had a feature article titled "The Best Stocks to Retire on." Several of the recommendations were well-known, blue-chip companies—many of which we currently buy for clients. But, taking the recommendations as a group, I was surprised how little emphasis was placed on dividend yield. If you're going to retire, you need to get paid. It's convenient to hope the stock market will appreciate year in and year out, but hope is not a strategy, and sometimes the market does not work in our favor. For example, during the period between 1965 and 1981, the Dow posted a negative return. Our Retirement Compounders global equity portfolio invests only in dividend-paying securities. Today, its current yield is 4.6%.

The information contained in this letter is for informational and educational purposes only. It is not intended nor should it be considered investment advice or a recommendation of securities. Please contact our office directly with any questions regarding items appearing in the letter.

Is the credit crisis over? Chart 1 shows the spread between bank-to-bank lending rates and treasury bills. Fixed-income investors call this “the TED spread.” The TED spread is a measure of panic in the financial system. When the TED spread blows out, as it did in the summer of 2007 and the fall of 2008, it is an indication that there could be trouble lurking in the financial system. Today the TED spread is at its lowest level in two years. Confidence in the financial system appears to have improved markedly in recent months.

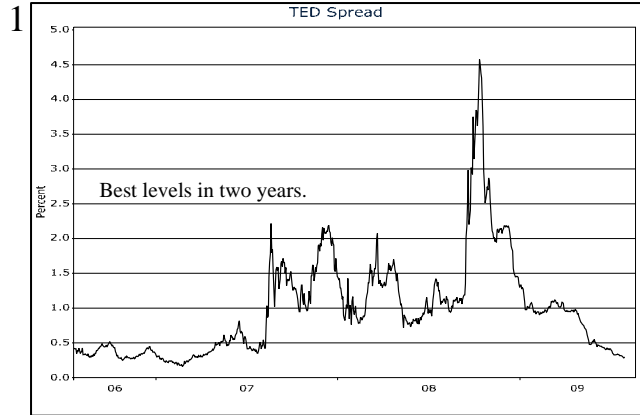


Chart 2 shows the average spread of credit default swaps on seven major banks. A credit default swap (CDS) is a contract that protects a buyer from the default of the underlying company. Credit default swap spreads rise when investors start to worry that a company is going to default. The average spread of credit default swaps on these institutions is now trading at levels last seen in June of 2008. Bank CDS spreads are still high by historical standards, but much improved from levels early this year.



Chart 3 shows the spread on A-rated industrial bonds. Investment-grade spreads are still wide by historical standards, but do not appear unreasonable given the economic backdrop. And with secular lows in treasury rates, on an absolute basis, companies are able to borrow at attractive rates.

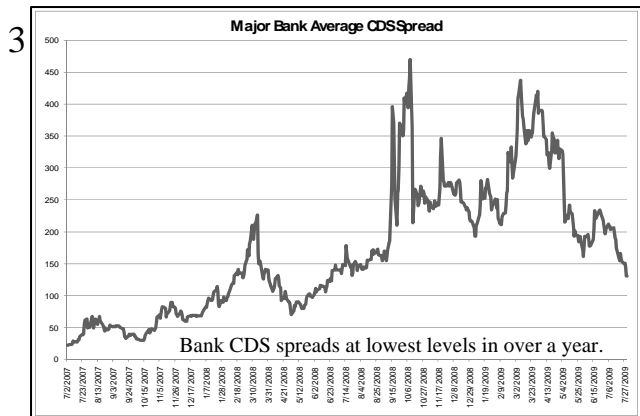


Chart 4 shows the yield on the Merrill Lynch High-Yield Master II index. Interest rates on high-yield bonds are still historically high, but are at levels that at least give the most attractive capital projects an opportunity to earn positive returns.



Is the credit crisis over? Credit conditions have improved, but until the market is tested with another batch of defaults, which are likely in the pipeline, investors should remain guarded.

Jeremy Jones, CFA
Chief Investment Officer

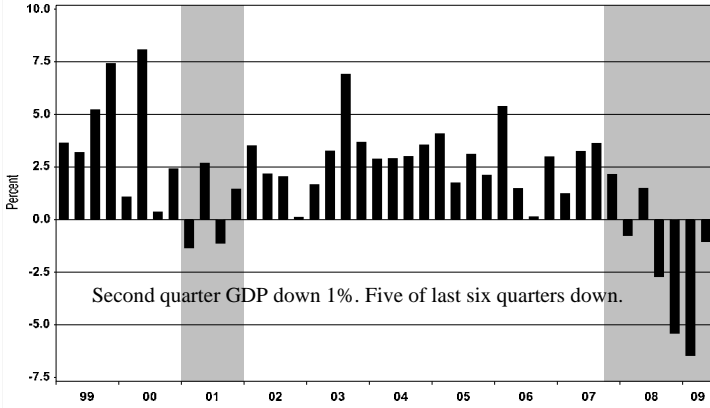
Composite Index of 10 Leading Indicators
Year-to-Year Rate of Change



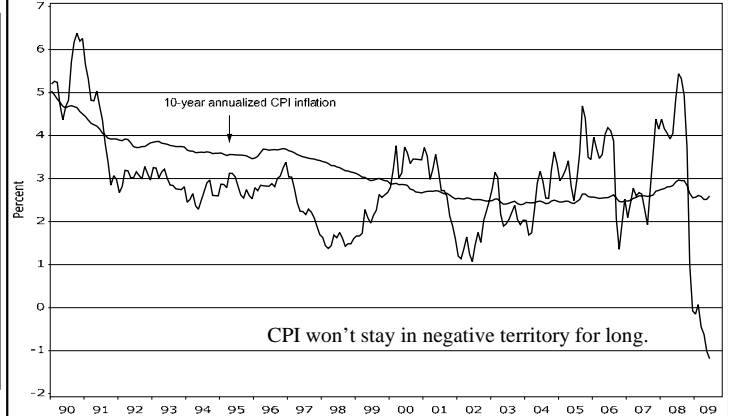
Gold Spot



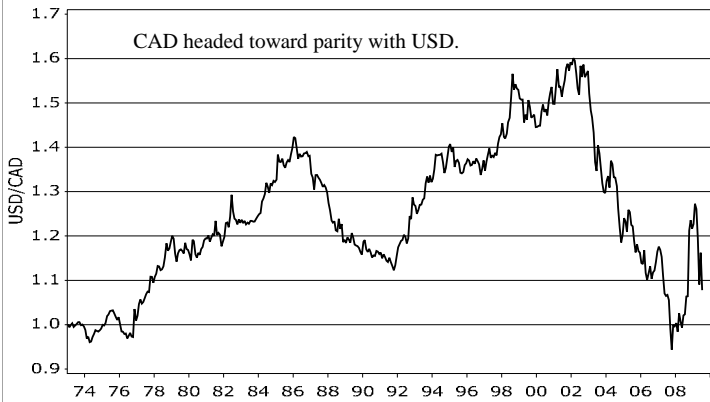
Gross Domestic Product
Annualized Rate of Change



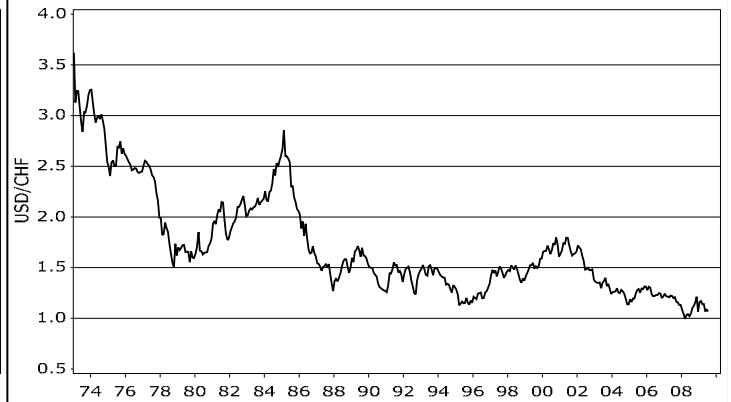
Consumer Prices
12-Month Rate of Change



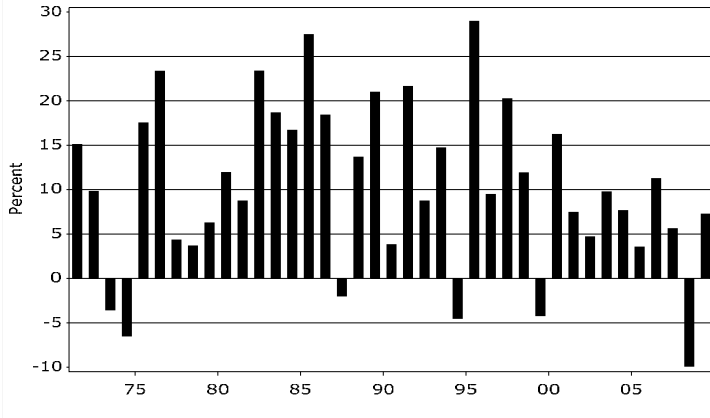
Number of Canadian Dollars One U.S. Dollar Buys
1973-Current



Number of Swiss Francs One U.S. Dollar Buys
1973-Current



Vanguard Wellesley Income Fund Annual Returns
A Balance of Equities and Fixed Income Securities



Risk
Dividend Payers vs. Non-Dividend Payers
(Standard Deviation over 36-month period ending 12/31/08)

