
CHARLES E. "CHUCK" NYE

JUNE 18, 1967 — NOVEMBER 29, 2009



We mourn the untimely death of Charles E. "Chuck" Nye, one of the founding partners of Midwest Investment Management LLC.

Chuck's business vision, financial acumen, steadfast determination, and unwavering commitment to serving his clients provided a valuable framework in shaping our company, and expanding it into the dynamic and respected organization it is today. We are dedicated to preserving his legacy of client service and growth.

Midwest Investment Management owes much of its success to Chuck's perseverance, trusted relationships, and personal values formed during his early life on his family's farm. He will be sorely missed by his colleagues, business associates, and clients.

Chuck leaves behind his wife, Susan, three young children, his mother, two brothers, and a sister.

*A memorial foundation has been established in the name of Charles E. Nye at
The Community West Foundation (a financial and administrative services organization)
20545 Center Ridge Rd., Suite 448, Cleveland, Ohio 44116*

All donations provided in Chuck's name will be used for future philanthropic endeavors selected by the Nye family. Donations are eligible for an immediate charitable contribution subject to prevailing tax laws, and will be acknowledged in writing. For more information, please contact the Community West Foundation at (216) 476-7060.

What Are The Economic “Wild Cards” For 2010?

By Elmer L. (AI) Meszaros, CFA, Partner



AI Meszaros

In the previous issue of this newsletter, we identified the risks of future *inflation* (which is already widely feared), as well as *deflation*.

In our view, the best scenario would be either modest deflation, with prices falling 1% to 2%, or modest inflation of up to 2% annually, which is consistent with rising stock values.

Negative possibilities

“Wild card” factors that could impact the economy negatively include:

- **Bad deflation**—Seriously falling prices would destroy the collateral value of loans held by banks.
- **Tax increases in 2011**—Tax hikes are always a drag on growth prospects.
- **U.S. Dollar collapse**—Investors may lose confidence in the dollar; however, the dollar is already undervalued and inflation is still not in sight.
- **Credit Restraint**—Banks’ lending policies may become too risk-averse.

Positive possibilities

“Positive wild cards” include:

- **Double-digit profit growth**—Beginning in 4th quarter 2009 and continuing for 8 to 10 quarters.

- **Job growth**—Beginning in 2nd quarter 2010; temporary jobs, a precursor, began to increase in late-2009.
- **Federal Reserve rates**—If rates are kept very low through 2011, it could drive investors to seek higher yields in stocks and bonds, re-capitalizing businesses that need it.
- **Political re-alignment**—Could reduce government spending, currently a major concern of investors.
- **“Good deflation” starts**—Prices fall 1% to 2% annually, enhancing consumer purchasing power. Such deflation may be triggered by worldwide overcapacity, rising productivity, and rising consumer savings rates.

Taking both the good and bad possibilities into account is required as we build all-weather portfolios for our clients.

Although the markets are stretched in terms of the speed of the recovery, we expect the general market to grind higher in 2010.

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If you are not a Midwest Investment Management client, this is an ideal time to switch the management of your investment portfolio to AI Meszaros, whose experience has produced impressive results for more than three decades. He can be reached at (216) 830-1133 or elm@mimilc.com

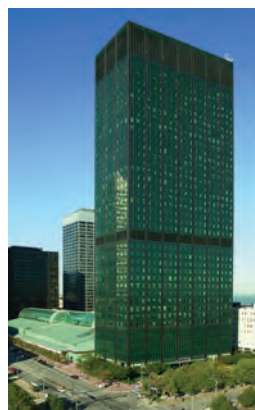
“...we expect the general market to grind higher in 2010.”

“Our downtown location has been very convenient...”

“This is our home for the next 5, 10, even 15 years”

As part of its long-term strategic growth plan, Midwest Investment Management recently renewed its lease at The Tower At Erieview in downtown Cleveland for an initial period of five years, with options for an additional ten years.

“This is our home for the next five, ten, even 15 years,” said Partner Elmer L. (AI) Meszaros. “We are pleased to remain in one of downtown Cleveland’s premier office buildings, right in the heart of the city’s business district.”



“The building has been modernized and well maintained, over the years,” noted Meszaros. “Our downtown location has been very convenient for our clients and employees, alike. Clients, in particular, enjoy the convenience of the building’s secure, heated underground parking garage.”

Introducing Roger I. McNamara, CFA



Midwest Investment Management’s highly experienced investment management team has added more “bench strength” to its roster, with the addition of veteran financial market analyst Roger I. McNamara, CFA.

Roger McNamara

McNamara’s responsibilities include the maintenance of “fair value models” on roughly 200 companies, with a goal of identifying worthwhile investment opportunities for our clients.

McNamara earned a Masters Degree in Finance at New York University and holds the CFA Institute’s *Chartered Financial Analyst* designation—the industry’s highest standard for investment knowledge and ethics.

He has also taught courses in Finance and Investments at John Carroll and Cleveland State Universities.

In the summer, McNamara enjoys coaching amateur baseball teams. He resides in Brecksville and has three adult children.

How Our Team Adapted: Looking Back At A Decade of Historic Challenges

By Norman F. Klopp, CFA, Partner



style of stock selection for client portfolios.”

The *Plain Dealer* quoted me as stating our new company would “strive to manage risk in a turbulent stock market” and despite “all the optimistic headlines, we think . . . people should focus just as much on risk as reward.”

Two important strategies

For the past ten years, we provided our clients with two important advantages:

- **A time-tested investment philosophy** we had been executing together for many years and decided to keep. Specifically, we would try to identify large, well-managed companies that we believed were positioned to grow at sustainable rates, generate high levels of cash flow returns, and pay and grow dividends. Once identified, we would utilize a very disciplined approach to determine the price we would pay for their stock.
- **The second advantage**, somewhat ironically, was a “clean sheet of paper” approach on which we could make continuous improvements, including creation of a much more disciplined and repeatable valuation process to determine an intrinsic value for each stock, using it to drive our purchase price and sell points, along with defining the population of stocks that we would regularly value, as a way to generate new ideas for client portfolios.

This strategy subsequently enabled us to incorporate a few Exchange Traded Funds (ETF's) into some client portfolios, on a very selective basis, to provide a diversified lower-risk investment in a specific industry or sub-sector of the stock market.

Decade of challenges

As a reminder, during this period the USA experienced the Sept. 11th terrorist attacks; has been involved in two wars; and struggled through two severe recessions, all of which resulted in serious market volatility. For example, in March 2000 (three months after we opened our doors), the Standard & Poors 500 Index hit 1553, but by October 2002 it declined by more than 50% to 759. In October 2007 the S&P was back up to 1576, only to slump to 769 in March 2009.

Through all of this volatility and turmoil, the audited composite of all of our clients' Non-taxable

Large Cap Core Portfolio, as measured from February 1, 2000 through September 30, 2009, provided a cumulative return of **+17.2% versus the S&P 500 return of -9.7%, a 26.9% spread on the market.**

This is testament to our strong belief that **it's important to focus on the risks of investing, not just the rewards.** The investment philosophy and process that we executed the last ten years does that! It also explains why we feel so strongly about our philosophy and process.

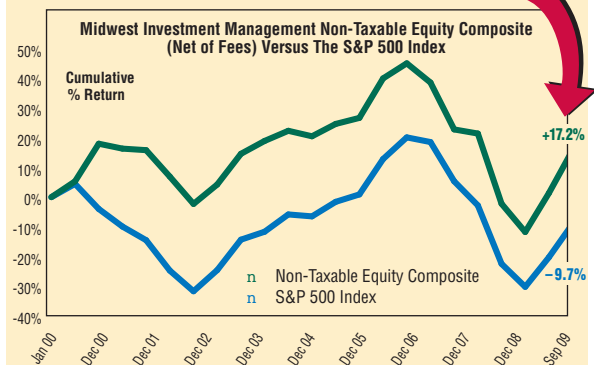
Consistent stewardship

We hope the volatility and turmoil of the past decade are not repeated in the future, but in reality we know that challenges—as well as opportunities—lie ahead.

“...it's important to focus on the risks of investing, not just the rewards.”

“This team will continue to execute our time-tested philosophy.”

The Results Are Clear: Our Investment Philosophy And Methods Provided A Significant Benefit To Our Clients



The above composite represents all non-taxable accounts with a 100% equity objective. All member accounts are fee-paying and Midwest Investment Management LLC had full discretion over these assets. Returns are calculated in U.S. dollars. The performance results depicted above include the reinvestment of dividends and capital gains. The period covered by the results depicted above was one of generally falling prices and subsequent recovery and may not reflect material economic and market factors that may influence our investment strategies of the future. Past performance is no guarantee of future results.

The Standard & Poors 500 Index is a broad market-weighted average of U.S. based large cap, blue chip corporations. The index is unmanaged and investors cannot actually invest in this index.

Our clients can take comfort knowing that the same highly experienced investment team that managed their accounts in the past decade—Al Meszaros, Meg Halloran, Norm Klopp—will continue to direct the investment management process at our firm in the years ahead.

This team will continue to execute our time-tested philosophy. While there are no guarantees, we believe that our core philosophy, operating strategies, broad experience, and flexibility, will continue to serve our clients well.

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You may contact our partners or staff by phone or e-mail. Here is a complete listing for your convenience.

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4th Quarter Economic Review

2010 Begins With Continuation Of "Slow Recovery Mode"

By Norman F. Klopp, CFA, Partner

Economic developments in the fourth quarter of 2009 supported our statement in this newsletter at the end of the third quarter that the "the U.S. is now moving into the early stages of economic recovery."

However, the early stage of this recovery can be described as "two steps forward, one step back." Until economic momentum gains breadth, we will see a mix of economic data reports that show some positive, as well as flat or modest weakness.

Most facets of the economy are in a slow recovery mode. Following the 2.8% GDP increase in the third quarter, we anticipate fourth quarter GDP growth will be about 3.0%, bringing 2009's full year GDP change to -2.5%.

“Most facets of the economy are in a slow recovery mode.”

In 2010, we are focused on a few factors whose resolution in either direction could have significant economic and market influence, including:

1. The inflation/deflation "struggle" we have discussed in the past. We believe inflation will not be a problem in 2010, but could increase after 2010 if government policy remains stimulative and global growth continues to accelerate.
2. Federal Reserve action or inaction in reducing enormous levels of liquidity injected into the economy over the last 12 to 18 months. Unfortunately, if the Fed waits until it sees a declining unemployment rate, it may be late in extracting liquidity, thereby raising the risk of inflation.
3. Huge "unknowns" for business and consumers raised by potential massive changes in health care; unknown costs of a national "carbon" policy; the potential increase in some tax rates and probable expiration of the "Bush tax cuts" in 2011. In addition, a possible political shift resulting from the 2010 congressional elections raises another unknown.

Modest growth ahead

We believe these "unknowns" will have a dampening effect on business and consumer activity until they are resolved and their potential cost can be measured.

These factors, and continued business caution, coupled with continuing consumer proclivity to reducing debt, are some of the factors that lead us to expect somewhat modest economic growth of 2.7% to 3.0% for the next few years.

In the fourth quarter of 2009, the stock market continued the classic recession recovery that began nine months earlier. As this issue went to press, the Standard & Poor 500 Index was up about 6.6% for the quarter and 24.7% for the year.

Large disparities

We expect large disparities in earnings gains industry-by-industry, and stock-by-stock. Massive cost-cutting at some corporations has produced higher than expected profit margins, raising the probability of significant profit margin increases once sales growth accelerates. This will, however, be company-specific.

We anticipate a lot of internal volatility in the market, but with conditions that in the aggregate can probably grow at a 10% rate for the year, about the long-term average.

“We expect large disparities in earnings gains...”

With more modest domestic economic growth and accelerating international growth, particularly in China, India and Brazil, we believe a portfolio of large, well-managed, global, highly profitable companies, such as those held in our clients' portfolios, will serve investors well in 2010.

We hope you enjoy reading our quarterly newsletter, which contains news about our firm, its investment philosophy, the economy and market trends. We suggest you retain these newsletters for future reference.

Perspective is published quarterly by Midwest Investment Management LLC, Cleveland, Ohio for its clients, friends and members of the business community. All information contained herein reflects the opinions of the authors and does not necessarily constitute investment advice. Past results are no guarantee of future performance.

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