

## FIRST QUARTER 2010 INVESTMENT RESULTS

The TCI Balanced Portfolio gained 2.1% during the quarter ended March 31, 2010. This compares to 5.4% for US stocks (S&P 500), 1.8% for bonds (BarCap Bonds), 0.9% for international stocks (MSCI EAFE), and 3.6% for the TCI Wall Street Index (50% U.S. stocks, 10% international stocks, 30% bonds and 10% Treasury bills).

Several factors led to the poor relative performance of the Balanced Portfolio. First, the portfolio is underweight stocks (40% position versus 60% in Wall Street Index) due to valuation concerns (see Valuation Matters). Second, the Balanced Fund equity position is 60% US stocks compared to 83% for the equity portion of the Wall Street Index. Third, lower quality and smaller U.S. stocks outperformed blue chip stocks. Blue chips (Vanguard Dividend Growth Portfolio) are the largest U.S. stock position in all TCI asset allocation portfolios due to superior current valuation.

In the short run, stocks are being driven higher by the huge wave of liquidity provided by the government, lack of competitive returns from money market instruments and higher-quality bonds, and an increasingly bullish economic outlook (see 'New Normal' vs. 'New Mix'). It is impossible to know how long this momentum will last or how high it will take the market.

## VALUATION MATTERS

As most of you know, TCI relies on reversion-to-the-mean to calculate future expected returns for various asset classes. Think of reversion-to-the-mean as gravity that inevitably pulls over-priced markets down and under-priced markets up. No one can be sure about timing so patience and discipline are required. As the table below shows, most investment classes are overpriced today following a brief period of reasonable valuation a year ago. Equilibrium is the 'normal' expected return for each asset.

These expected returns below led us to our current conservative position. TCI asset allocation portfolios are underweight stocks (with more emphasis on blue chip stocks and international stocks), underweight bonds and overweight opportunistic investments that have the potential to take advantage of good or bad markets.

## 'THE NEW NORMAL' VS. 'THE NEW MIX'

Mohamed El-Erian of PIMCo coined the phrase 'the new normal' about a year ago to describe his view of the U.S. economic future. He sees more government, lower consumer spending, higher taxes and more regulation leading to an extended period of economic growth of around 2% annually. Joseph Carson of AllianceBernstein describes his more optimistic outlook as 'the new mix'. He sees higher exports and business investment as the drivers of the future, and he believes this new mix of demand is sufficient to boost the economy by 3 to 4% annually looking forward.

Who is right? The market currently favors Mr. Carson but as we all know the market is very fickle. The outcome could have important implications for corporate profits and interest rates. At this point TCI believes the weight of the evidence favors Mr. El-Erian. However, TCI is unwilling to 'bet the ranch' on our or anyone else's predictive capability. Instead we rely on the power of reversion-to-the-mean.

## CONCLUSION

Our investment objective is to earn 4 to 5% more than the rate of inflation over the long-term. Our best advice is for you to have a plan and stick to it.

Want to know more about the TCI investment process? We recommend you go to [www.trustco.com](http://www.trustco.com). There you will find a link to the TCI investment blog, commentary from a number of outstanding investment resources, and links to information on recommended mutual funds.

### Expected Real Annual Returns for Next 7 Years

	Equilibrium	Today 3/31/2010	Market Bottom 3/31/2009	Market Top 9/30/2007
US Large Cap Stocks	5.7%	0.7%	7.5%	-1.8%
US Small Cap Stocks	6.2%	-1.3%	7.4%	-2.5%
Blue Chip Stocks	5.7%	6.5%	12.0%	2.2%
Intl Stocks	5.7%	4.4%	10.0%	-0.2%
Emerging Market Stocks	6.5%	3.8%	8.5%	-0.3%
Government Bonds	2.7%	0.8%	0.2%	2.0%
Inflation Protected Bonds	2.7%	1.0%	0.9%	2.0%
Short-Term Bonds	0.5%	-0.7%	0.2%	1.7%