Brookmont Capital Management

Dividend Equity Strategy – Second Quarter Review

Since the markets bottomed on March 6, stock prices have moved steadily higher based on better economic data and improved investor confidence. Early in the market recovery investors made a "risk-bet" and lower-rated stocks jumped 60-100% during the month of April. As the second quarter progressed, the reality of higher unemployment and GM's bankruptcy sent investors back into more defensive areas of the market.

While the bulk of the Strategy's holdings are classified as defensive in nature, there are a few names in the portfolio that participated in the "risk-bet" during the first few weeks of the market recovery. Stocks such as CBS (+81 in 2nd Quarter), Wells Fargo (70%), RR Donnelley (62%), Tupperware (54%), and Worthington Industries (48%) paced the Strategy during the early part of the quarter. When investors became more conservative in May and June, performance was paced by Lubrizol (40%), Kellogg (29%), and Unilever (27%). Only two stocks in the Strategy posted a negative return during the quarter as Chevron and Abbott Labs were both down by less than 1%.

Several sectors were responsible for the Strategy's second quarter performance. Strategy holdings in the Financial Sector rose 37% during the quarter, followed by Consumer Discretion (+36%), Materials (+32%), and Industrials (27%). Sectors that lagged the Strategy's overall performance included the more defensive area of the market: Telecom (+2%), Health Care (+8%), and Energy (+9%).

The market's recovery was not a surprise to us and we have never held the belief that it was only a bear-market rally. Valuations in the market were attractive, credit markets were showing signs of life, and corporate earnings were finding a bottom. Rising unemployment will continue to mute the magnitude of the recovery in stock prices and the economy, but it is the pure rate of change (i.e., Delta) that we believe is important. While a 0% growth rate in the economy is never good news, it will feel a lot better than the -6% growth rate that we saw in the fourth quarter of 2008.

The second leg of the market recovery will not be as easy or as dramatic as we have seen since March 6. Much stronger economic data and corporate earnings will be necessary for fundamentals to support continued progress in the market's recovery.

Recognitions in 2009:

Morningstar Database of Investment Managers

Ranked #9 out of 429 Large-Cap Value Managers (1-year returns)*
#1Ranked Dividend-Focused Manager (Year-to-Date and 1-year returns)*
*(as of June 30, 2009)

Quarter-End Statistics	
Portfolio Turnover	10%
Payout Ratio	57%
Earnings Growth ('10v'09)	28%
Dividend Yield	4.7%
Number of Holdings	36
P/E Ratio (2010)	13x

Sector Weighting	
Consumer Staples	17%
Financials	14%
Consumer Discretion	14%
Industrials	13%
Materials	10%
Health Care	10%

Representative Holdings: Johnson &Johnson, McDonald's, Kellogg, AT&T, Lance, Southern Co.