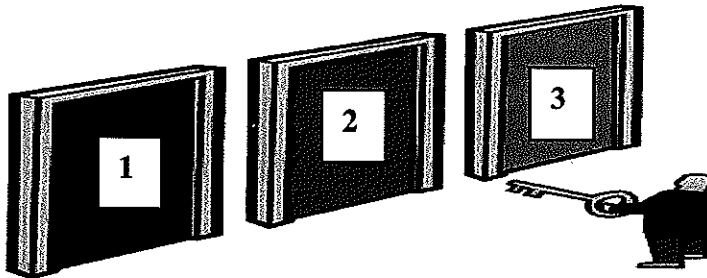




Colley Asset Management, Inc.

REGISTERED INVESTMENT ADVISOR

The Best Picks for Right Now



The “best of the best” in the favored investment classes will be the prime focus of this Newsletter. In a piece such as this, I can’t do justice to all of our favorites, so I’ll concentrate on hitting the highlights and divide the selections in to preferred categories and asset classes. Objective data (including analyst opinions and statistics) and subjective views were all part of the process of selecting the “best of breed”, special niche opportunities, and outstanding value (including a few turnaround situations, too).

Naturally, suitability may vary among investors, be it concentrating on growth, income, or some combination of both objectives. Please know that great research efforts and diligent screenings have taken place in order to develop this special list. In fine-tuning the list, qualitative and quantitative analysis has helped separate the cream from the milk by emphasizing intrinsic financial strength, heightened safety, definable risk/reward parameters, high quality ratings and the reliability of results. For stock and ETF selections, the contextual theme continues to be one that favors a modest domestic recovery within the broader context of a bolder and bigger global recovery. For fixed income selections, income, quality, safety, and rate risks were studied and rated.

Before we get to the lists, I’d like to summarize six key points which are particularly relevant right now:

1. The consumer is cautiously moving forward. A deep recession takes a deep toll and we expect sluggish consumer spending to continue well beyond the recession. While the consumer confidence index has stopped its decline, economists are excited just to see the unemployment numbers stabilize somewhat. High consumer debt levels, flattened home prices, and labor woes (fear of unemployment, lost overtime and benefits, and no raises) continue to depress and drag on the consumer’s psyche. This phenomenon alone will keep the consumer’s recovery “in check”, pointing to a modest (not a robust) recovery in the U.S.

The side effects of defaults and foreclosures will stay with the consumer for some time to come. Statisticians will remind me that we have always rallied back from the depths of a recession and I certainly believe we will do so, again, and we must remember that we have avoided the “Armageddon”-like meltdown that many had fearfully predicted. So, onward and upward is still “on”, but the raging bull is tamed somewhat.

2. Emerging Markets are where the growth is and the economies of China, India, Russia and Brazil are really leading the global recovery. In relative terms, the emerging markets (which also include Africa, the Middle East, South America, and developing countries in Asia)

are still the “cheapest” place to invest and the weaker U.S. dollar also encourages dollar carry trading and is bullish for exporting companies, hence the rationale for investing in blue chip large cap U.S.-based companies that do business abroad. Larger populations simply imply there are more people spending money on food, utilities, consumer products and construction services.

3. Valuations are still very favorable for selected stocks in selected industry sectors. The charts reveal that there are many undervalued stocks out there, waiting to shine should the recovery brighten up. Some severely oversold stocks are down for a reason and will not rally back much, while others will give us the “up” staircase rally (run up, pause, correct, and run up, again, on confirming news). **As I’ve pointed out before, the early stages of an established bull market are driven by mean reversion. Translation: The most “sold off” stocks can bounce back even if their unfolding fundamentals don’t justify it. However, the run-up in prices won’t hold up if the earnings don’t show up to the party** (hence the need for confirmation of results).

The dividend cuts following the 65% decline in the S&P 500 were quite severe as one might suspect. However, we are starting to witness a rebuilding of dividends and balance sheets in the early stages of this recovery and this trend is very favorable and encouraging (just as the attractive P/E and PEG valuations are causing some smiles ☺).

4. It’s important to buy scarcity and pay respect to the sheer logic of supply/demand dynamics and projection statistics. This brings me to the subject of natural resources, a key theme which includes commodities (food stuffs and staples), metals (constructions and precious), building materials, fertilizers (to improve agricultural results and yields). All will do well in the future- (CAM will be watching the pauses, which are a part of any bull run as well as the inflation news.)

5. The **political tenor and partisan antics** add another dimension to the frustration factor of investors/consumers and the upcoming mid-term elections will prove pivotal on many fronts: fiscal policy, deficit-spending, stimulus programs and tax legislation to name a few. Despite the unknowns and lack of clarity, we can remind ourselves that investors like to “climb the wall of worry” and look out six to nine months down the road when the economic climate could be better.

6. For now, interest rates will stay low, inflation will begin to inch up (led more by the global recovery factors than domestic drivers), and oil prices are likely to push up to around \$85-\$100 over the upcoming winter months. The U.S. dollar’s value weakens more until interest rates are lifted by Bernanke later in 2011. So, with that representing some of the assumptions, let’s get to our selections:

**Dividend yield denoted in parentheses () if relevant.*

Natural Resources

<u>BHP Billiton-BHP</u>	<u>Teck Resources- TCK</u>
<u>Mosaic-MOS</u>	<u>Southern Copper-SCCO (5%)</u>
<u>Potash- POT</u>	<u>Silver Wheaton-SLW</u>
<u>Cliffs Natural-CLF</u>	<u>U.S. Steel- X</u>
<u>Terra Nitrogen-TNH (10%)</u>	<u>Gold ETF-GLD</u>
<u>Monsanto-MON</u>	<u>Hecla Mines-HL</u>

Alternative Energy

<u>First Solar-FSLR</u>
<u>Trina Solar-TSL</u>

Favorite Holding Company

<u>Berkshire Hathaway-BRKA/B</u> Blue Chip, High Quality, Value Fund with Excellent Diversification (unfortunately, no dividend)

Technology/Telecommunications

<u>Apple-AAPL</u>	<u>Google-GOOG</u>
<u>Microsoft-MSFT</u>	<u>IBM-IBM</u>
<u>Netflix-NFLX</u>	<u>Cree Technology-CREE</u>
<u>Corning-GLW</u>	<u>Comcast-CMCSK</u>
<u>Verizon-VZ</u>	<u>Sprint-S</u>

Energy

<u>BP Prudhoe Bay Royalty Trust-BPT</u> (9%)
<u>Enbridge Energy Partners-EEP</u> (7%)
<u>Permian Basin Trust-PBT</u> (7%)
<u>Enterprise GP Holdings-EPE</u> (5%)
<u>Conoco Phillips-COP</u> (4%)

Industrials

<u>Precision Cast Parts-PCP</u>
<u>Caterpillar-CAT</u>
<u>Deere-DE</u>
<u>Illinois Tool Works-ITW</u>
<u>Textron-TXT</u>
<u>Manitowoc-MTW</u>
<u>General Electric-GE</u>
<u>Emerson Electric-EMR</u>
<u>Dupont-DD</u>

Metals

Please see Natural Resources on previous page.

Transportation

<u>CSX Corporation-CSX</u>	<u>Frontline-FRO</u> (8-10%)
<u>Ford-F</u>	<u>Tata Motors-TTM</u>

Infrastructure/Building

<u>Shaw Industries-SHAW</u>	<u>Cemex (Cement)-CX</u>
<u>Fluor Corp.-FLR</u>	<u>Home Depot-HD</u>
<u>Jacobs Engineers-JEC</u>	<u>Lowes-LOW</u>

Utilities

<u>Florida Power and Light-FPL</u> (5%)	<u>Duke Power-DUK</u> (5%)
<u>National Grid-NGG</u> (8%)	<u>Century Link (Telephone)-CTL</u> (7%)
<u>Frontier Communication-FTR</u> (9%)	<u>AT&T-T</u> (6%)

**Dividend yield denoted in parentheses () if relevant.*

Blue Chip-Staples (including consumer)

Coca Cola- KO	Johnson & Johnson-JNJ
Whole Foods Market-WFMI	Smuckers-SJM

Financial

VISA-V	Mastercard-MA	SPDR XLF-XLF
---------------	----------------------	---------------------

Special Situation

Express Scripts- ESRX	Teva Pharmaceuticals-TEVA
------------------------------	----------------------------------

With interest rates at low points not seen since the Eisenhower era (“I like Ike”), now is not the best time to lock in long-term bonds. Instead, a staggered mix of maturities that concentrate in the three to eleven year range represents the smart “sweet spot” for yield.

Fixed Income

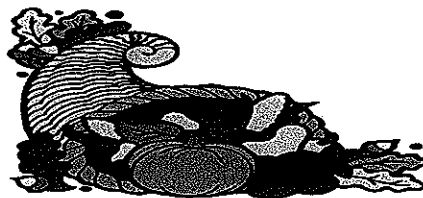
Multi-coupon step up bonds are a prudent approach with rates due to increase soon. The recent moratorium on foreclosures has negatively impacted values on mortgages and U.S. agency paper and this should be a short-term phenomenon. It is interesting that after claims of currency manipulation, the Chinese Central Bank does a surprise rate hike which causes some reverberations.

TIP’S or U.S. Treasury Inflation-Protected Notes and Multi Step-up Coupon Bonds- Corporate Bonds, CD’s, Preferred stocks, No load bond/Fixed Income funds could be very suitable for you.

These funds contain all of the above types of securities:

Alliance Bernstein Income- ACG (6%)	American Income-MRF (8%)
American Strategic Income II-BSP (10%)	American Strategic Income III-CSP (11+%)
Pimco-PTY (9%)	John Hancock Investors-JHI (7+%)

Please feel free to touch base with me at any time. I wish everyone a wonderful Autumn and Thanksgiving season.



With best regards,

JC

10/19/2010

Disclosure Information

CAM may currently own shares, options, rights or warrants and/or execute transactions in the securities mentioned in this report. The views and opinions expressed in this newsletter (which may include recommendations) can reflect the analytical and intuitive advice of the writer. Research reflects many sources and CAM derives no compensation or fees for recommending certain securities from these sources.