

WISH LIST UPDATE

THE STRATEGIES

INCOME-EQUITY STRATEGY, pg 4

A diversified dividend-growth strategy providing high current income, growth of income, and growth of underlying principal. Stocks are high quality, high yield, and are projected to have a rising stream of income.

INCOME-EQUITY NO MLP STRATEGY, pg 4

A custom version of our Income-Equity Strategy that excludes exchange-traded Master Limited Partnerships (MLPs).

GLOBAL UTILITIES + INFRASTRUCTURE, pg 6

By focusing on opportunities in the broad, global utilities industry, this portfolio seeks to participate in the dynamic growth potential of the most important economic sector (essential services and infrastructure worldwide).

RISING DIVIDEND PLUS, pg 8

A portfolio of large- and mid-cap companies in which dividend growth is the key variable. We focus on companies with proven long-term success and special current opportunities, and incorporate technical analysis into the portfolio process. RDP should generally be considered a value/momentum strategy.

DISTRIBUTION / MERGING UTILITIES, pg 10

An opportunistic portfolio of primarily regulated local monopoly distribution utility companies with strategic and financial takeover appeal.

MLP STRATEGY, pg 11

A high-yielding portfolio (with tax-deferred income) primarily composed of pipelines and energy facilities we feel have strong prospects for growth of distributions. Revenues are derived from durable and stable business assets that generate attractive yields to the unit holders while allowing for long-term organic growth.

Last quarter we wrote about how so many aspects of the financial and real-world business environment had gone “off the charts”—the worst or near-worst in history, the worst since data has been kept, the quickest, the steepest, etc. We discussed some of the elements in the macro and secular pictures that we’d like to see, and herein we’ll follow up on that list.

Few of the items we cited then related to the world of large-scale financial transactions, for even at the end of the second quarter the credit markets seemed near to healing, and that trend continued through the third quarter. Banks may not be lending—a problem for the real economy—but they are very much still standing, and if fears about the prospects for commercial real estate are well founded you wouldn’t know it from market rates and credit instrument relationships.

Our focus is evaluation rather than prediction, but we just can’t resist recalling our thoughts in the third quarter report of 2008, where we took the no-Armageddon position that “...most important, the US government and the governments of other major nations are *on the case*...if it doesn’t work well enough, a revised plan will take its place, and if the revised plan doesn’t work well enough, yet another revision will take its place.” Bad as things may have looked, we thought the global Feds would step in, and the actions would work—at least as a stabilizer. We only wish equity investors had been, with us, a bit more sanguine. Then life might have been just a *little* crazy over the past twelve months, rather than the panicked psychiatric ward that it became.

When we review the points we suggested last quarter that needed improvement, we can conclude that, as former President Reagan might have said, the rate of decrease has decreased. Indeed, at this point one might even go a step further, and say the decrease has ceased. It appears to be a bottom of some sort for the economy, though what that means in terms of sustainability is a subject for further thoughts below. Here are some of the features of the landscape in which we wanted to see some change, and their updated status:

Industrial Production. This critical broad-scale indicator has definitely stopped falling and has improved. A bounce due to inventory rebuilding and cash-for-clunkers? Perhaps, but we’ll give it the benefit of the doubt for now.

Declining Dollar. We’re as patriotic as the next fellow, but we believe a weak dollar is imperative for restoring American competitiveness and investment appeal, so the continuing weakness of the third quarter is a plus for us.

Institute for Supply Management. These most respect-worthy of the macro data series have continued to improve and today indicate a growing economy. We doubt any data set is perfect, but we think arguing with the ISM is a bad bet. Another plus.

[more ▶](#)

“Our proprietary index options indicator is supportive, though not ragingly so.”

Upward Revisions in Government Statistics. There have not been any upward revisions to our knowledge. Positive economic movements have not been going so rapidly that the government can’t keep up. In other words, while the numbers are better, they’re still plenty slow. Neutral or negative.

Upside Earnings Surprises. Second quarter earnings reported in the third quarter were frequently better than expected. Whether this is cause for jubilation or just one more example of analysts’ emotional overshoots in their expectations is certainly open to debate, though the relatively few equity market participants willing to play had no particular argument. Earnings were not better than the previous quarter or previous year, and there was a paucity, we would note, of upward guidance revisions from companies—an important factor in our view. Neutral.

Continued Improvement in Yield Spreads. As we noted above, the credit markets have been healing. Though we and others express concern about the low levels of bank lending, the fact is that many companies have access to the credit markets now, and bonds are being sold again. A plus.

An Increase in the Volume of Trading. Not happening. This is one of the worst features of the current market, and it hasn’t improved. Declining volume and rising markets over six months is a rule-breaker. Negative.

An Increase in Margin Debt. There was a small uptick over the quarter, though not enough to alter the trend as yet. There is much talk about “risk appetites” increasing, but these appetites are also on a kind of diet. Negative.

Improved Insider Activity. Last quarter we noted that insider buying was at its lowest levels of the past two years, despite lower stock prices. At this point insider buying is at the worst levels ever, as far as we have been able to determine. Traders may love this market, but corporate insiders emphatically do not. Insiders aren’t always right, but they do always have insight about how business is “on the ground.” Negative.

Greater Bearishness among Advisors and Individual Investors. It is not hard to presume that when the amount of cash (earning next to nothing in money market funds, T-bills, and deposits) is equal to the total market value of all stocks, that many investors are bearish—though this sum is less than it was at the end of second quarter. Still, the conventional sentiment indicators are nowhere near bearish enough to support a rally under “traditional” conditions. Our proprietary index options indicator is supportive, though not ragingly so. Interestingly, it is favoring large caps over small. Neutral.

The pattern should be fairly clear: The macro or economic indicators have improved, and appear to make a case for an economic bottom. The more secular or market-centric indicators remain, in our view, on the distinctly negative side of neutral. Of course this was the case when the second quarter began, and the quarter ranks among the best ever for the summer, so it has been a period when traditional market factors have not factored in. Price momentum, we might say, has been its own reward.

That is not to diminish momentum as a factor. Indeed, many unbiased studies have shown that momentum is a significant factor in determining and projecting shorter-term equity returns. As we have seen in 2009, on occasion it can dwarf all others. And momentum remains a plus, no matter how one might feel about the individual items—the worst and most troubled stocks, the ones that fell the most, the least financially strong—to whom momentum has lent its charisma.

Momentum is somewhat beyond analysis, except to say that it has been mighty and measures up well against historical moments of what technicians call “breadth-thrust.” Though the leadership hasn’t been great in most cases, the fact remains that most stocks have benefited: thus, “breadth.” We’re wondering if momentum has even been strong enough to cancel out the diminished volume feature... Still, momentum alone, without a supporting cast of fundamental and technical factors, would not give us much confidence in the sustainability of continuing strength.

SELECTED INDICES

	3 rd Qtr 09	1 Yr
S&P 500	15.6%	(6.9)%
Equity Inc	15.8%	0.4%
Util Fund	9.7%	(3.8)%
BC Long	4.5%	9.2%
R3UTIL	6.1%	(4.7)%
R1000	16.1%	(6.2)%
R3000	16.3%	(6.4)%
R3000Val	18.6%	(10.8)%
DVY	18.2%	(18.4)%

S&P 500 = Standard & Poor’s Index
 Equity Inc = Avg Equity Income Fund (Lipper)
 Util Fund = Avg Utility Fund (Morning Star)
 BC Long = Barclays Capital US Treasury Long
 R3UTIL = Russell 3000 Utilities
 R1000 = Russell 1000
 R3000 = Russell 3000
 R3000Val = Russel 3000 Value
 DVY = iShares Dow Jones Select Dividend ETF

Our portfolios haven't missed the move, so we can without defensiveness say that all the factors are not aligned, and this time the hunters may not follow the dogs into the woods. We think equities are due for a pause.

But isn't this the bottom economically? Doesn't one want to back up the truck at the bottom? Don't we agree with Michael Darda and Jim Grant and LeBron James that the bigger the drop the bigger the bounce?

Could be. But one of the restraining factors for investors, we think, and perhaps one of the explanations for the "wall of cash" that makes bullish traders so comfortable today is the distinct possibility that there has been a sea change in our domestic economic outlook. We can avoid the famously deadly phrase "this time it's different," and still say "this time there are *differences*."

Some have talked about a "new normal," though we have to be wary of that camp since they are mainly debt investors and are in some sense talking up their own book. Some have talked about a "W" (Is that what all the schooling and sophisticated statistical sampling and comprehension of credit derivatives have come to, the reduction of complex economic forces to the shape of an alphabet letter?), others a "U," others believe in the shape of a "square root" sign. Personally, we think "bowl of spaghetti" is more like it, but we're not going to compete.

To be sure, the numbers are better. But we have concerns. What do we get "back" to if the economy, driven by profligate debt at every level from government to corporate to personal, was never really real? For years we've wondered how you have a solid economy when you don't make anything. Did the debt bubble essentially clothe what's now revealed as naked and sagging and fat and out of shape? As Dire Straits sang, we had "money for nothing," and now we have empty factories, declining rents, rising vacancies, tightfisted consumers, aging infrastructure—oh, don't get us started. More rationally, the economy has taken the biggest hit since the Great Depression, and considering there is more of it to hit, arguably the biggest hit ever.

Our economy has bounced back from many hits over the past decades, but it is fragile now. Our biggest concern is regarding its ability to weather another shock in the near term. Let's hope there is time for healing before new challenges arise.

GIPS Disclosure Information

Results are shown in US dollars. Included in the results are all unrestricted portfolios that have been managed for at least one full quarter, including those accounts no longer with the firm. Past performance is not indicative of future results. Results are presented gross and net of fees and include the reinvestment of all income. Wrap accounts are included in this composite, and gross returns for these accounts are shown as supplemental information as they are stated gross of all fees and transaction costs. Gross returns for nonwrap accounts have been reduced by transaction costs. Net returns assume a 3% annual advisory fee, charged quarterly, and include wrap program fees, which are generally based on quarterly market values determined by the custodian and may include any combination of management, transaction, custody, and other administrative fees. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. Actual investment advisory fees incurred by clients may vary. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account.

Miller/Howard Investments Inc. is an employee-owned, registered investment advisor specializing in multi-cap, core equity management and dividend strategies.

Miller/Howard Investments Inc. claims compliance with the Global Investment Performance Standards (GIPS®). Compliance with the GIPS standards has been verified for the period of January 1, 2000, through December 31, 2007, by Ashland Partners & Company LLP. To receive a complete list and description of Miller/Howard Investments composites and/or a presentation that adheres to the GIPS standards, contact Marilyn Marecek at 845-679-9166, or write Miller/Howard Investments, P O Box 549, Woodstock, NY 12498, or marilyn@mhinvest.com.

Annual ADV Update

If you would like a copy of our current ADV Part II, please contact Marilyn at:

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or

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The ADV will be mailed to you, free of charge.

"We can avoid the famously deadly phrase 'this time it's different,' and still say 'this time there are differences.'"

INCOME-EQUITY WITH MLPs

Sector Weights

Cash	0.9
Real Estate	4.0
Consumer Discr	4.5
Technology	5.6
Business Services	5.9
Financials	6.5
Utilities	10.3
Consumer Staples	10.4
Healthcare	10.7
Telecom Services	11.0
Energy	11.5
Pipelines	18.7

Current Yield [†]	5.6%
Proj Dividend Growth ^{††}	6.0%
Beta ^{†††}	0.7

Sector weights are taken from a representative account and are subject to change. The above data is shown as supplemental information and complements the full disclosure presentation located on page 9.
[†]Weighted average.
^{††}Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.
^{†††}10 Year annualized vs. S&P 500.

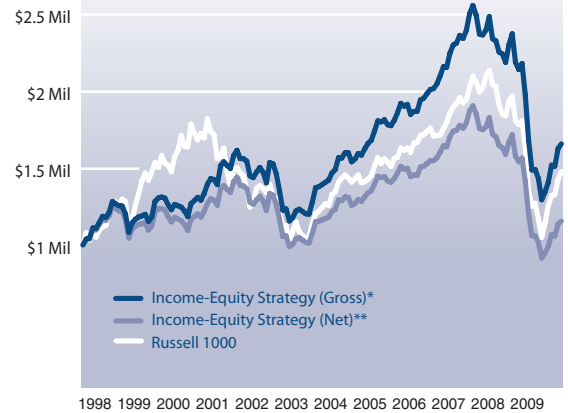
The broad market mildly overshoot our suggested risk/reward parameters noted in last quarter's report (10% reward, 10% risk) as the "high beta trade" continued to push the indices higher. While our Income-Equity strategy would not be generally located in this lower-quality and "turnaround" zone of the market, our stocks acquitted themselves reasonably well, and in fact delivered a higher percentage of upside return than has historically been the case.

Recognizing the improvement in aggregate numbers, we're still concerned with the quality of business as reported in the various industry surveys and CEO statements we review as part of our ongoing research effort. Here we find anecdotal evidence of a stabilization of the decrease in economic activity, but a notable paucity of evidence that the rubber is in any way meeting the road. After brief relief blips for restocking, business is down in steel from producers to distribution centers. Rail and truck freight is down with no visible prospect of improvement. The Baltic Freight rates continue to decline. In commercial real estate rents are declining and vacancies increasing and hotel rooms are going begging. Retail sales, like many areas, are occasionally "better than expected," but never good. We are well aware that by the time the news turns positive it is often too late for equity investors to participate, but we think the information available now at the concrete level of actual business suggests that aggressive players of an incipient turnaround are driving at a much faster speed than the road can tolerate. For us, reliable cash flows remain more appealing than the effects of an imagined economic turnaround on economically sensitive businesses.

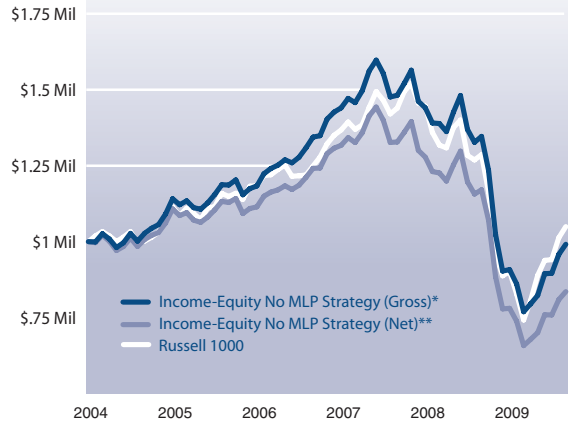
PORTFOLIO HIGHLIGHTS

Early in the quarter we added to Alexandria Real Estate as news of its signing of a first tenant in its New York property began to trickle out (concerns about this property had been a cloud over the stock). By early September, with the stock up about 50% on the heels of this news and better than expected FFO and future guidance, we were already taking partial profits

Growth of \$1 Mil Income-Equity with MLPs (Since Composite Inception - 6/97)



Growth of \$1 Mil Income-Equity No MLPs (Since Composite Inception - 12/03)



The above data is shown as supplemental information and complements the performance disclosure located on page 9.
^{*}Gross returns are shown as supplemental information to the net returns.
^{**}Net return assumes a 3% annual advisory fee that includes wrap program fees.

in the stock. We also added to our position in American Water Works. In our view there is no such thing as an "easy" investment in the equity markets, but AWK does seem about as close as you can get from a long-term investment perspective. Not only are current conditions fine (the company raised its dividend 5% in the quarter), but growth prospects are also solid as the company regains rate increases that were postponed during RWE's ownership. Too, we believe the future holds plenty of water system privatizations from municipalities strapped for cash—though this theme is not yet playing out. One would not think that a company in this condition would be selling at a deep discount relative to other water companies and to its own history, but it is.

SELECTED LEADERS

HSBC Holdings	Leads large banks, China focus and no government harness
Alexandria RE	Earnings beat, first tenant in NY complex, equity offering
Allstate	Remains undervalued, earnings lag, many new positive analyst opinions
Telefonica SA	Best of developing telecoms now, issues of value, Euro, and home market
Donnelley RR	Continues recovery, many new deals, earnings beat, business still soft
Microchip Tech	Earnings beat, raised guidance, chip industry generally improves

SELECTED LAGGARDS

McDonald's	Fine US and global sales, dividend increase, McCafe working
Kraft Foods	Earnings beat, stock backs off on acquisition offer for Cadbury
China Mobile	China stocks correct, earnings disappointing, now largest global mobile
Northeast Util	Big earnings beat, continuing transmiss. build-out a major positive
Enerplus	Oil flattens, offers new units, expansion via joint venture in Marcellus Shale

In August we added HCP on attractive valuation and improving prospects. This owner of healthcare facilities will be little affected by any changes in health policy at the national level, and it is one of the few high-yielding companies we know of that's actually paying down debt (debt-equity ratio has declined by 30% over the past year). They are in the process of working out deals that might create a substantially improved and/or new asset base at very low cost. We think it will be generating large and rising cash flows for our portfolio for the indefinite future.

In September we added BP and Diamond Offshore, giving us more direct exposure to energy pricing. In a way this is a hedge against economic conditions unfolding in a much more positive way than we envision—without taking much risk of further cyclical downside, since we think oil prices will remain firm even in a slow economy, as they have for the past nine months. BP's problems with reserve development appear to be over, and we believe the issues with its Texas refinery may be over (though shortly after we bought the stock some new complaints have arisen, a development we're watching). Diamond Offshore has long-term contracts providing solid cash flow from top operators in the deep-water drilling areas that are the only pocket of strength in

the drilling industry. They have been paying "regular special" dividends that give the stock a high yield. Here we are mindful of the fact that they still call the payouts "special" and the payouts could be sacrificed if an exciting acquisition comes along (however, the company is financially strong and has other resources to accomplish new investment).

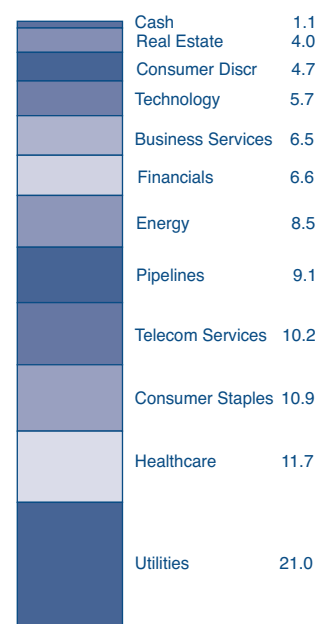
LOOKING FORWARD

Some of the economic indicators we respect, such as the ISM, point to better times ahead, so we remain open to companies with solid businesses that will be enhanced by economic revival. But the hard facts from real investable industries remain too lifeless for us to be very enthusiastic about securities outside of our comfort zone, a zone that encompasses balance sheet strength, ongoing cash flow and revenue stability or growth, modest dividend payout ratios, and dividend increases. At the end of the quarter our current yield for our strategy that includes MLPs was 5.6% (including full payments from Diamond Offshore, which we expect to continue). In the year to date, nearly 30% of our current holdings (in Income-Equity including MLPs) have increased their dividends, by an average of 8%.

See page 9 for GIPS Performance tables.

INCOME-EQUITY NO MLPs

Sector Weights



Current Yield[†]	5.1%
Proj Dividend Growth^{††}	6.0%
Beta^{†††}	0.9

Sector weights are taken from a representative account and are subject to change. The above data is shown as supplemental information and complements the full disclosure presentation located on page 9.

[†]Weighted average.

^{††}Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.

^{†††}5 Year annualized vs. S&P 500.

GLOBAL UTILITIES + INFRASTRUCTURE

Sector Weights

Cash	0.9
Energy	3.4
Water Utilities	4.6
Natural Gas/Distr	7.5
Tech/Comm	9.7
Indust Serv/Mat	11.0
Natural Gas/Divers	11.0
Pipelines	12.1
Electric Utilities	19.2
Telecom	20.6

Current Yield [†]	3.4%
Proj Dividend Growth ^{††}	7.0%
Beta ^{†††}	0.8

Sector weights are taken from a representative account and are subject to change. The above data is shown as supplemental information and complements the full disclosure presentation located on page 7.

[†]Weighted average.

^{††}Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.

^{†††}10 Year annualized vs. S&P 500.

We were optimistic about prospects both short and long term for this strategy at the end of the second quarter—despite outsized gains recently seen—and our stocks registered satisfying returns once again. The portfolio was definitely helped by strength in the broad market, as our more aggressive stocks participated fully. Though the major utility indices lagged behind most other equity measures this period, our traditional utility stocks still made significant contributions. So, in the parlance of today's media-speak, we found gains in both high and low beta stocks.

Our relatively stodgy corner of the world is becoming hip and cool. At the level of business fundamentals, we own many of the key participants in the urgent area of infrastructure rebuilding and expansion. Too, we hold companies involved in the creation of the "smart grid" that's necessary to efficiently utilize the resources we have now, as well as to integrate new sources of energy such as solar and wind. At the level of institutional investment trends, which can be just as important to the movement of stock prices as the underlying businesses, our stocks are part of a newfound interest in "real assets," companies that rely on long-term recurring cash flows generated as a result of substantial capital investment in productive, long-lasting facilities and improvements. We're feeling a little like Tony Bennett, his value

suddenly rediscovered and resurrected by a new and younger generation of musicians. We'd consider going out and buying new clothes, but the old ones are still good.

PORTFOLIO HIGHLIGHTS

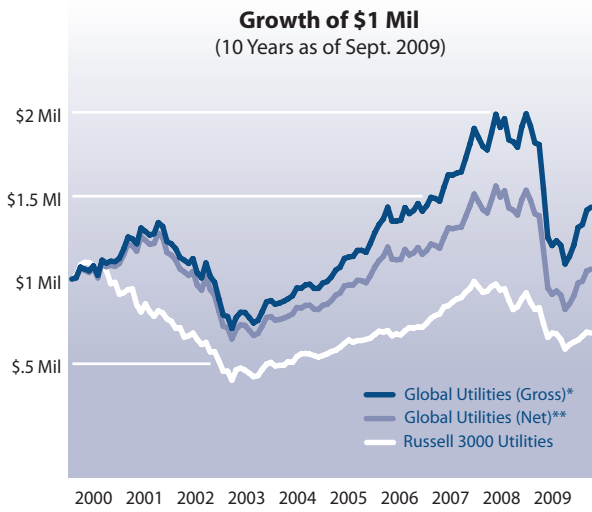
We bought Chicago Bridge and Iron at what we thought was an exceptionally low valuation. A low valuation was necessary, since the company has a history of muffing opportunities. But a large project that had provided some years of overrun nightmares has closed, the company continues to show good backlogs in this most backlog-less of times, and they even seem to have learned the trick of taking their large revenues down to the bottom line. We were quickly greeted with about a year's worth of appreciation, so it may become a relatively short term holding. We bought Veolia Environnement, also at what we thought was margin-of-safety valuation. Debt had grown mightily in recent years on acquisitions. But that's the nice thing about real assets: If you need to downsize some, you have businesses that generate continuing streams of cash flow and they are saleable. Veolia is busy selling noncore assets now, and it is getting multiple bidders and good prices. Considering that its fundamental water and environmental businesses are steady cash cows that can pay down remaining credit obligations, we

SELECTED LEADERS

NIHD Holdings	Large earns beat, price recovery, expansion in Mexico
NiSource	Earns beat, finances better, among cheapest utils, possible M&A
ONEOK	Earns beat, raised guidance, analyst upgrades, increased dividend
Itron	Earns and revs beat, major opportunities ahead in "smart grid"
Ultra Pete	Earns beat, increased exposure in Marcellus, est 20% prod growth

SELECTED LAGGARDS

Quanta Services	Earns beat, guides down due to economy, acquires gas pipe contractor
General Cable	Pause after gains, big earns beat but guidance lowered, economy drag
Covanta	Modest earns report, low gas prices and economy restrains
Verizon	In-line earns, increased dividend, rumors of Direct TV deal
Akamai	Disappointing earns and pricing, but scale and new services should prevail



The above data is shown as supplemental information and complements the performance disclosure located on this page.

*Gross returns are shown as supplemental information to the net returns.

**Net return assumes a 3% annual advisory fee that includes wrap program fees.

think previous investor concerns here were overblown. We also bought Calgon Carbon. If you want to purify your water and air, you need activated carbon. As the world’s largest provider, CCC is a good way to participate. Again, we bought at low valuations some time after investors dumped the stock on disappointing earnings.

We reduced some weights to generate cash for the buys above, with the exception of Brazilian water and waste company Companhia de Saneamento, in which we took profits. Though some of our trims continued higher, the new buys were up very sharply by quarter’s end, so we’re not looking back.

LOOKING FORWARD

Despite good returns in the second and third quarters, we don’t see valuation issues in our stocks and we don’t think the gains are out of line with economic reality (a feature some may argue is the case in the broader market). It is true that usage of all kinds (electricity, gas, communications, even water) has come off levels of the boom years, but revenues have not fallen off a cliff as is the case in so many other industries. It’s true that some of our more aggressive stocks may be susceptible to corrections in the broader market, but our more traditional utilities, still cheap by any measure, have begun to pull their oars now and can do more going forward.

There are, of course, issues in Washington. We wrote at length last quarter regarding possible directions in the realm of carbon capture and CO₂ tax, or cap and trade, noting that we saw it more as an opportunity to identify winners and losers rather than as an issue that should cause any kind of panic. In addition, there are many initiatives coming out of the stimulus package (plus actual movement in the private sector) that can be of great benefit to electric utilities, gas pipelines, and technology and service providers to both industries. But the political process has also bogged down considerably in the face of an extremely heated healthcare debate. There’s been little progress to a new regime. We’re not political experts, but in general it has always seemed to us that the longer legislation takes the greater the chance that it never happens at all. And if bills do pass with much delay, the representatives of the status quo tend to retain much more of their previous privilege. So we’re restraining ourselves from “jumping the gun” in opportunities from new environmentally supportive legislation.

“...we don’t see valuation issues in our stocks and we don’t think the gains are out of line with economic reality...”

Global Utilities + Infrastructure Composite Performance

GIPS composite disclosure shown in US dollars

Preliminary	Global Utilities + Infrastructure Gross*	Global Utilities + Infrastructure Net**	Russell 3000 Utilities
Period to Date (3 mo’s to 9/30/09)	13.7%	12.8%	6.1%
1 Year per annum (ending 9/30/09)	(2.0)%	(5.0)%	(4.7)%
3 Years per annum (ending 9/30/09)	1.0%	(2.0)%	(4.0)%
5 Years per annum (ending 9/30/09)	7.4%	4.3%	4.0%
7 Years per annum (ending 9/30/09)	11.4%	8.2%	8.4%
10 Years per annum (ending 9/30/09)	4.1%	1.0%	(3.7)%

*Gross returns are shown as supplemental information to the net returns.
**Net return assumes a 3% annual advisory fee that includes wrap program fees.

The Global Utilities + Infrastructure Composite (known as Better Than Bonds/Utilities prior to July 1, 2008) contains fully discretionary accounts. By focusing on opportunities in the broad, global utility industry, this portfolio participates in both the stability and the dynamic growth of the most important economic sector. For comparison purposes this strategy is measured against the Russell 3000 Utilities Index, which comprises over 200 utility stocks that are included in the Russell 3000 Index.

We make no claims that our portfolio will track the index closely.

In some charts and tables we show the S&P Utility Index to give investors some measure of how the broad universe of utilities has performed. See GIPS disclosure information on page 3.

RISING DIVIDEND PLUS

Sector Weights

Cash	1.5
Consumer Discr	3.9
Energy	4.9
Consumer Staples	6.9
Basic Materials	10.4
Industrials	11.8
Healthcare	15.4
Financials	17.7
Technology	27.5

Current Yield [†]	1.8%
Proj Dividend Growth ^{††}	11.8%
Beta ^{†††}	0.9

Sector weights are taken from a representative account and are subject to change. The above data is shown as supplemental information and complements the full disclosure presentation located on page 9.

[†]Weighted average.

^{††}Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.

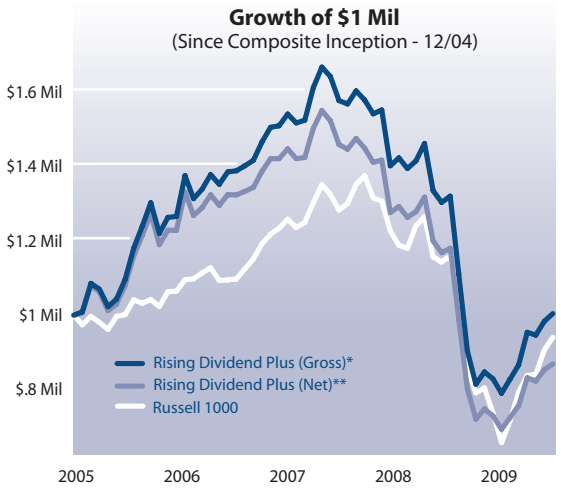
^{†††}14 Year annualized vs. S&P 500.

Sprinters did better than long distance runners this past quarter, though we'll take our returns every three months any time they're offered. Despite the upwelling of lower-quality and economically sensitive names, the past two quarters our comparisons are very satisfying for the year to date. And we hope to distinguish ourselves further soon, when real investors (rather than traders) begin to enter the market and make real investments in real companies with real dollars. Many of the bets that have been made over the past six months have been bets that will only pay off in a robust economic recovery. That may eventually come to pass, but we don't think it's likely in the visible future, which is why, in this portfolio that does have a reasonably flexible mandate, we've elected to stick with our posture of focusing on good-quality names that can generate reasonable cash flow even in the absence of anything like a robust recovery—stocks that will still feel the tailwind if things should prove better than expected more quickly than expected. There is historical precedent as well: After a bear market, higher beta stocks that had fallen the most very often lead rallies, but over time leadership inexorably turns to lower beta, higher-quality, dividend-paying issues. (See our 1Q 2009 Quarterly report Overview section, at www.mhinvest.com.)

PORTFOLIO HIGHLIGHTS

That said, the market is dynamic, its ebbs and flows producing under- and overvaluation at times in the short term, uncovering opportunities. Too, at times one may also realize that it can be acceptable to buy new positions even if one didn't pounce at the absolute perfect short-term moment, since life is long and it's rarely too late to own an outstanding company (Peter Lynch of The Magellan Fund often said he never did well in a stock until year 2. We'd like to do well in year 1 and in year 2, but his voice of experience is worth remembering).

Along those lines, two of our new purchases were among our best performers last quarter. We bought Goldman Sachs after a brief technical correction, a "never too late



The above data is shown as supplemental information and complements the performance disclosure located on page 9. *Gross returns are shown as supplemental information to the net returns. **Net return assumes a 3% annual advisory fee that includes wrap program fees.

to buy a great company” idea. In this case the company is an obvious standout in the financial sector, having paid back its TARP and pretty much mowed down the competition. Just as important, it is always good investment policy to back companies that are the beneficiaries of changes in government operations or laws. There's a top price for everything, but GS wasn't there when we bought it, and as earnings and revenues have unfolded, it's not there now. New buy Chicago Bridge and Iron (we also bought this in our Global Utilities and Infrastructure Strategy) is a company with huge backlogs in LNG-focused infrastructure. It has, frankly, a past history of miffing its opportunities at the bottom line, but the opportunities are still flowing, and the company appears much better managed now than it has in years. With about a year's return since purchase, we have a bit of a margin of safety now to observe its progress.

We also bought Maxim Integrated Products as the semiconductor industry, MXIM's mixed-signal area in particular, appears to have been one of the first industries to bottom, and we like chips when the times are right. Along those lines we added Intel after a good earnings report and upside guidance from the company. The release of Windows 7 may or may not be a bonanza for INTC, but it hardly seems priced into the company's shares, which sell at a historically low multiple of earnings and cash flow, and the major new software release is hardly likely

to hurt. In a rosy scenario, Windows 7 is a big success, prompting surprising upside to the sales of new computers, and Intel sees both higher than expected earnings and a PE multiple expansion. We bought the world's largest producer of lithium, Sociedad Quimica Y Minera from Chile, since there appear to be no better batteries now than lithium batteries, and there appears to be no end to the appetite for batteries, even at industrial-strength electric generation plants. We added Cooper Tire as a turnaround, and Bank of NY Mellon as a definite solid survivor in the finance sector.

We took profits or sold laggards to make room for new buys. Anadarko jumped on news of a find off Africa, but on a quick 50% runup this quarter despite falling natural gas prices we took prices in half our position, at what may have been the top tick. We sold Teva as controversy developed around its MS drug Copaxone. CME group became dicier when calls in Washington came forth that limit positions held by commodity traders—we stepped aside awaiting greater clarity. We've always favored Emerson, but its economic cyclicality is so palpable that we decided to stand aside on this excellent company until macro times are better. We sold Quest Diagnostics to raise cash for buys; revenues were running rather lighter than called for in their business plan, and they will be subject to as yet unknown forces as a result of still uncertain healthcare legislation. We may consider owning it again when the healthcare environment is clearer.

LOOKING FORWARD

While the economy and the market are fraught with question marks, there is "enough" of each to provide selected opportunities. We expect to find a reasonable flow of new possibilities in well-managed companies with dividends that are able to prosper despite the current challenges. Flexibility in portfolio positioning is more important than usual, and we're prepared to make changes at a higher level of activity than normal if necessary.

Rising Dividend Plus Composite Performance
GIPS composite disclosure shown in US dollars

Preliminary	Rising Dividend Plus Gross*	Net**	Russell 1000
Period to Date (3 mo's to 9/30/09)	10.6%	9.8%	16.1%
1 Year per annum (ending 9/30/09)	(5.3)%	(8.1)%	(6.2)%
3 Years per annum (ending 9/30/09)	(9.3)%	(12.0)%	(5.1)%
Since Inception (ending 9/30/09)	1.0%	(2.0)%	(0.4)%

*Gross returns are shown as supplemental information to the net returns.
**Net return assumes a 3% annual advisory fee that includes wrap program fees.

The Rising Dividend Plus Composite contains fully discretionary accounts, is a mid- and large-cap core strategy focusing on companies in which dividend growth is the key variable. For comparison purposes this strategy is measured against the Russell 1000 Index, which represents the extensive large-cap segment of the US equity universe of approximately 92% of the US market. See GIPS disclosure information on page 3.

"...but over time leadership inexorably turns to lower beta, higher-quality, dividend-paying issues."

Income-Equity Strategy Composite Performance
GIPS composite disclosure shown in US dollars

Preliminary	Income-Equity Strategy Composite Includes MLPs Gross*	Net**	Russell 1000
Period to Date (3 mo's to 9/30/09)	14.2%	13.4%	16.1%
1 Year per annum (ending 9/30/09)	(12.7)%	(15.3)%	(6.2)%
3 Years per annum (ending 9/30/09)	(7.2)%	(10.0)%	(5.1)%
5 Years per annum (ending 9/30/09)	0.8%	(2.2)%	1.5%
7 Years per annum (ending 9/30/09)	5.9%	2.8%	6.3%
10 Years per annum (ending 9/30/09)	3.5%	0.4%	0.4%

*Gross returns are shown as supplemental information to the net returns.
**Net return assumes a 3% annual advisory fee that includes wrap program fees.

The Income-Equity Strategy Composite contains fully discretionary accounts focusing on multi-cap, high-quality, high-yield dividend-growth investments across the broad market, including American Depository Receipts. For comparison purposes this strategy is measured against the Russell 1000 Index, which represents the extensive large-cap segment of the US equity universe of approximately 92% of the US market.

The composite received performance examination for the period of January 1, 2000, through December 31, 2007. See GIPS disclosure information on page 3.

Income-Equity Strategy Composite No MLPs

Preliminary	Strategy Composite No MLPs Gross*	Net**	Russell 1000
Period to Date (3 mo's to 9/30/09)	14.0%	13.1%	16.1%
1 Year per annum (ending 9/30/09)	(17.3)%	(19.8)%	(6.2)%
3 Years per annum (ending 9/30/09)	(8.8)%	(11.6)%	(5.1)%
5 Years per annum (ending 9/30/09)	(0.4)%	(3.4)%	1.5%

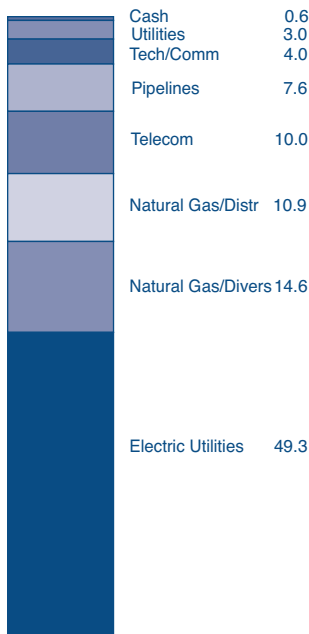
*Gross returns are shown as supplemental information to the net returns.
**Net return assumes a 3% annual advisory fee that includes wrap program fees.

The Income-Equity Strategy (No MLPs) Composite contains fully discretionary accounts focusing on multi-cap, high-quality, high-yield dividend-growth investments across the broad market, including American Depository Receipts, excluding exchange-traded Master Limited Partnerships. For comparison purposes this strategy is measured against the Russell 1000 Index, which represents the extensive large-cap segment of the US equity universe of approximately 92% of the US market.

The composite received performance examination for the period of January 1, 2004, through December 31, 2007. See GIPS disclosure information on page 3.

DISTRIBUTION / MERGING UTILITIES

Sector Weights



Current Yield [†]	3.8%
Proj Dividend Growth ^{††}	5.5%
Beta ^{†††}	0.6

Sector weights are taken from a representative account and are subject to change. The above data is shown as supplemental information and complements the full disclosure presentation located on this page.

†Weighted average.

††Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.

†††10 Year annualized vs. S&P 500.

*Gross returns are shown as supplemental information to the net returns.

**Net return assumes a 3% annual advisory fee that includes wrap program fees.

The Distribution/Merging Utilities strategy focus is to own broadly defined utility companies that we believe are likely takeover candidates. For comparison purposes this strategy is measured against the S&P Utility Index, which is an unmanaged, market-value-weighted total return index of all utility stocks in the S&P 500.

We make no claims that our portfolio will track the index closely.

In some charts and tables we show the Russell 3000 Utility Index to give investors some measure of how the broad universe of utilities has performed.

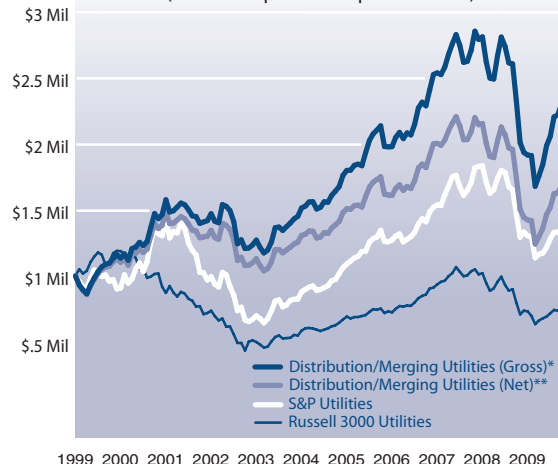
See GIPS disclosure information on page 3.

We didn't expect a repeat of the second quarter's mighty returns for the most recent period, though we viewed current valuations and long-term prospects favorably. But our third quarter was almost as good, nearly matching even broad market indices, although the general utilities indices remained the wallflowers among sectors. There were bounce-backs from oversold situations, to be sure, but many stocks simply persisted in their steady-eddy nature. Once again there wasn't much in the way of M&A activity. Instead, public market investors themselves narrowed the gap between trading prices and real private market values.

Last time we noted that though conditions in the financing world didn't augur well for deals, we continued to "act as if" transactions might happen, thereby positioning ourselves in stocks with solid assets, unwarranted low valuations, and strategic importance to a variety of potential acquirers. We're still there, and now credit market conditions have improved enough to think that deal activity might restart once again. Utilities broadly have been able to borrow, and at excellent long-term rates.

We bought Integrys Energy with good results. The company had previously run amuck in its merchant division (a familiar tune over the past few years in Utility Land). Now it is selling off noncore businesses, leaving it a solid utility in an excellent north country service territory with a yield just under 8%. This stock would not be expensive 20% higher, so at less than book value, it was an obvious choice for us. We also bought PCS (near quarter's end), the fastest growing domestic cellular company, though it was selling at only about 12 times next year's

Growth of \$1 Mil (Since Composite Inception - 12/98)



1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009
The above data is shown as supplemental information and complements the performance disclosure located on this page.
*Gross returns are shown as supplemental information to the net returns.
**Net return assumes a 3% annual advisory fee that includes wrap program fees.

earnings estimates. It would be just an inhale for one of the larger operators.

We sold Dynegy, whose struggles were just too much for us despite its candidacy for acquisition (we want stocks in the portfolio that we're happy holding even if there is no deal). We took profits in Calpine, another merchant generator, after it had more than doubled from the year's lows. It is a well positioned and well run company; we'd buy it again at better pricing.

Elsewhere, pipelines like Spectra Energy and Enbridge Energy Management helped us, as did NiSource (our interest in it is the Columbia Pipeline unit) and Southern Union. Two good companies that had been knocked last year earlier, Constellation Energy Group and BCE, continued their slow but steady price recoveries. Somewhat more radical NIHD Holdings and Vimpel Communications were vigorous bounce-back stocks, gaining more than 50% each during the quarter.

Our laggards didn't really have fundamental or regulatory problems; for the most part they just gained less. It could very well be that in the coming quarter stocks like PPL, Piedmont Natural Gas, Sempra Energy, Portland General Electric, and Alliant Energy wind up on the leaders list.

Unlike many portfolios that have done well in the broad market, we think the gains here will be sustainable. Weak hands are gone, and the nice yields in the portfolio are in the sweet spot for investor needs during these parched times for income.

Distribution/Merging Utilities Composite Performance
GIPS composite disclosure shown in US dollars

Preliminary	Distribution/Merging Utilities		S&P Utilities
	Gross *	Net**	
Period to Date (3 mo's to 9/30/09)	12.0%	11.2%	6.1%
1 Year per annum (ending 9/30/09)	(0.9)%	(3.9)%	(7.1)%
3 Years per annum (ending 9/30/09)	0.2%	(2.7)%	(1.2)%
5 Years per annum (ending 9/30/09)	7.0%	3.9%	7.0%
7 Years per annum (ending 9/30/09)	9.7%	6.5%	10.8%
10 Years per annum (ending 9/30/09)	7.7%	4.6%	3.6%

Our portfolio has been performing extremely well by any measure. Sector selectivity has been important, as has our concentration on strong balance sheets, access to capital markets, attractive growth projects that generate future cash flow/distribution increases, and a focus on fee/contractual business models; we've generally avoided commodity price sensitivity. A contraction in yield spreads also provided a strong tailwind, since many investors value MLPs in relation to fixed-income yields.

One can characterize the business model of the portfolio as entities that have *annuity-like streams of distributions generated by long-lived monopolistic assets that have inflation protection traits*. We often like to think of them as “utilities without walls” or the tollbooth for molecules on the energy highway system. And the cash flows have remained strong despite a troubled economy: Thus far this year 13 of the 20 portfolio companies have raised their distribution at least once. In the third quarter there were 7 distribution increases. By year-end we anticipate all 20 holdings will have increased their distributions (as all 20 did last year), a true testament to the MLP business model even in the post-Lehman world.

Our best performers in the third quarter were Regency, Genesis, and Williams Partners, mid-cap companies that substantially underperformed last year. Kinder Morgan (KMP), Energy Transfer, and NuStar (all strong companies) were the laggards, though the first two were actually up 6% in the quarter. We sold Atlas Energy as management decided to merge with their general partner, turn itself into a C corp., and eliminate the distribution. What attracted us to Atlas in the first place was their Appalachia-Marcellus exposure. We replaced it with Inergy that has both a propane business and also is in gas storage/transportation in the heart of Appalachia.

Though last year there were fears about funding, the capital markets have been wide open to the quality MLPs. Kinder Morgan recently raised \$1.0 billion in debt at approximately 5.8%, and Magellan & Plains raised a combined \$750 million at slightly above 5.5%. The current cost of capital is in sharp contrast to 8.7% interest rates early in

2009, and we would note that these interest rates are comparable to the most creditworthy and solid corporations. There have also been numerous equity offerings, including deals from ONEOK, Boardwalk, and Inergy, resulting in the combined industry capital raise thus far in '09 of \$14 billion, equaling the entire total for '08. The industry is on track to raise an amount equal to about 20% of its 2008 year-end market value in 2009. That's not desperation or “hole-filling” capital as has been the case with banks; that's growth capital for yet further prosperity.

New capital and the new projects that get financed beget stepped-up cash flows that in turn beget distribution increases—the virtuous cycle that makes this sector so attractive. A new source of capital, namely infrastructure-focused Private Equity (PE) funds, has entered the MLP space attracted by the steady high-return characteristics of the MLP business model, enhancing the general access to capital still further. Thus far in '09 PEs have invested about \$1.0 billion in new joint venture projects with existing MLPs.

Last time we said “it snorts like a bull in this arena.” While the bull might take a justifiable pause to catch its rather hot breath, investment in MLPs is a long-term concept, with long-term cash flows and long-term growth. At current valuations there is still ample appreciation possible to accompany rising distributions, and we believe the bull still has plenty of charge remaining.

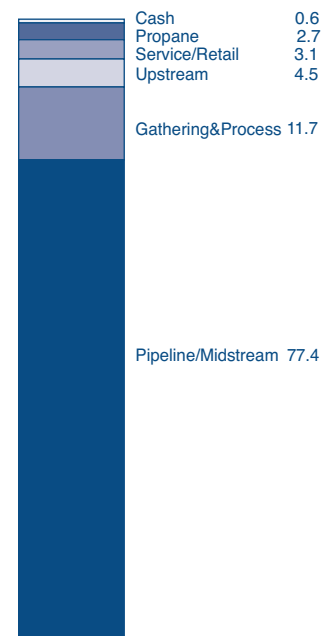
MLP Strategy Composite Performance			
GIPS composite disclosure shown in US dollars			
Preliminary	Gross*	Net**	Alerian
Period to Date (3 mo's to 9/30/09)	15.7%	14.9%	14.0%
Since Inception (ending 9/30/09)	53.3%	50.0%	51.3%

*Gross returns are shown as supplemental information to the net returns.
**Net return assumes a 3% annual advisory fee that includes wrap program fees.

The MLP Strategy Composite contains fully discretionary accounts invested in exchange-traded master limited partnerships that offer the potential for high tax-deferred income and growth of income. This is a customized version of the Master Limited Partnership Portfolio that was limited to only small cap MLP companies. For comparison purposes this strategy is measured against the Alerian MLP Index, which is a composite of energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. See GIPS disclosure information on page 3.

MLP STRATEGY

Sector Weights



Current Yield [†]	8.3%
Proj Dividend Growth ^{††}	7.3%

Sector weights are taken from a representative account and are subject to change. The above data is shown as supplemental information and complements the full disclosure presentation located on this page.

[†]Weighted average.

^{††}Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.

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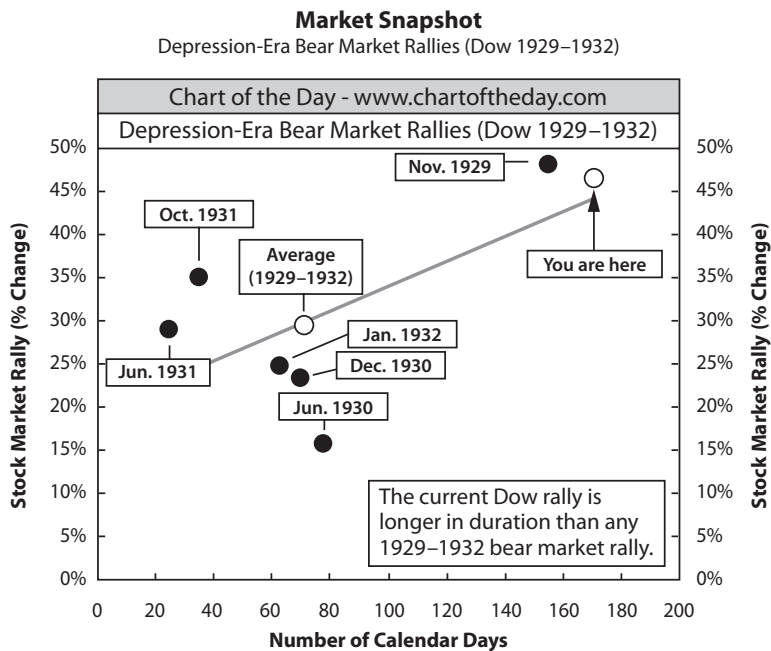
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We were sent this interesting "Chart of the Day" on August 28, 2009. As of September 30, 2009, the numbers have literally moved off the chart with the duration of calendar days at 205 days and the current rally off the lows approaching 55%.



Source: Chart of the Day - www.chartoftheday.com

"Price momentum, we might say, has been its own reward. That is not to diminish momentum as a factor. Indeed, many unbiased studies have shown that momentum is a significant factor in determining and projecting shorter-term equity returns. As we have seen in 2009, on occasion it can dwarf all others. And momentum remains a plus, no matter how one might feel about the individual items—the worst and most troubled stocks, the ones that fell the most, the least financially strong—to whom momentum has lent its charisma."

— Page 2 of Overview