CORNERSTONE Investment Partners, LLC

Market Letter
July 9, 2010

Conclusion:
The S&P 500 and DJIA declined 11.43% and 9.36% respectively in the second quarter of 2010 snapping a string of four consecutive up quarters. Year-to-date, the S&P 500 and DJIA were down 6.65% and 5.00% respectively. For the past twelve months the S&P 500 and the DJIA were up 14.43% and 18.94% respectively. At the end of the second quarter of 2010, the S&P 500 and DJIA were approximately 49% and 54%, respectively, above the lows of March 2009. All figures include dividends.

	3Q09	4Q09	1Q10	2Q10	Past 12 Months
S&P 500	15.61%	6.04%	5.39%	-11.43%	14.43%
DJIA	15.82%	8.10%	4.82%	-9.36%	18.94%

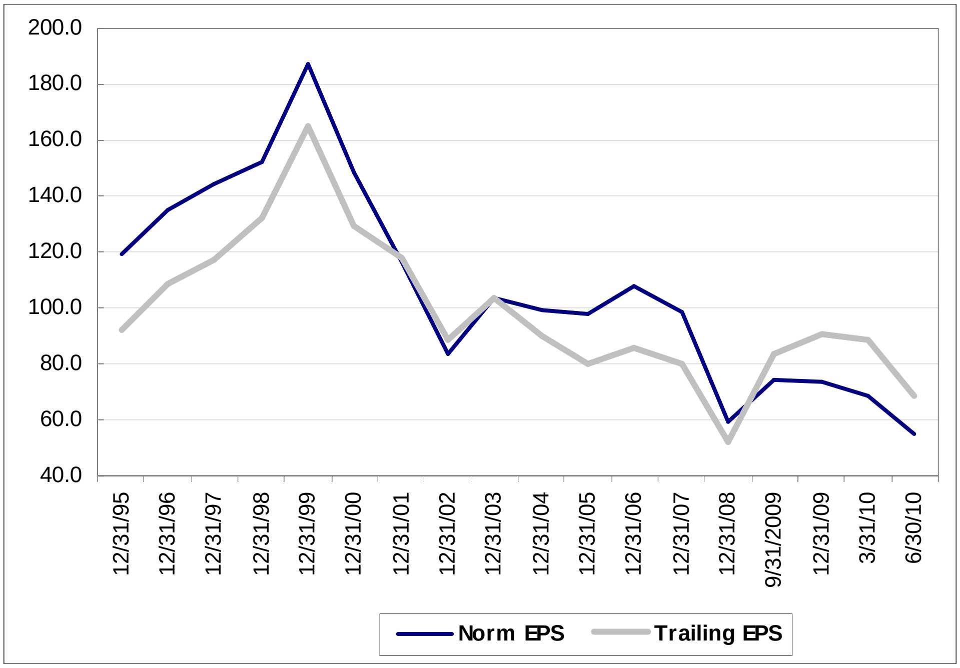
Source: Bloomberg

A reversal in market sentiment occurred in May as negative factors began to outweigh the tepid recovery that was taking place in many sectors of the economy. The enormous deficits and national debt being piled up by the Congress led by the Administration has become a major concern. Spending by the Federal Government has been ineffectual in reducing the large number of unemployed. The massive deficits are occurring during a period of extremely low interest rates, thereby, mitigating the real cost of borrowing by the government. If and when, the economy recovers to full potential, the current policies could fuel inflation and cause interest rates to spiral upward. The cost of maintaining the large national debt would increase dramatically under an environment of rising interest rates and result in even higher deficits.

Other negative events such as the debt crisis in the Euro Zone, the North Korean sinking of a South Korean naval vessel, a halt to the progress in Afghanistan, inflation in China and the BP oil spill all added to the despondency of investors. It is hard to quantify the effect on the economy of these events. While high unemployment and rising deficits persist, the administration in Washington D.C. insists on pursuing policies that will increase costs to consumers and businesses alike under depressed economic conditions. Examples are the government healthcare bill, cap and trade, and the card check program for unions. This is not the time to enact government programs that increase overall costs in the economy while also increasing disincentives to grow businesses.

Despite the fact that markets are at present attractively valued, investors may be discounting the relevance or repeatability of corporate earnings. However, given the relevant criteria in calculating valuations, equity securities are currently selling at prices so attractive, that they could withstand substantial erosion in earning power and considerably higher interest rates.

800 Stock Universe



Source: Cornerstone Investment Partners **Chart I**

Risk Premium Surges:

The risk premium increased 284 basis points during the second quarter of 2010 because of the reasons pointed out in the conclusion above. The risk premium is the highest it has been since April 17, 2009 or about six weeks after the bottom was established on March 9, 2010. Unless one considers the decline in interest rates on the 10 year U.S. Treasury from 3.87% to 2.94% to be a harbinger of bad things to come, it seems that lower interest rates make stocks more attractive. Assuming that earnings were higher in the second quarter of 2010 than in the comparable quarter of 2009, interest rates were 96 basis points lower and stocks prices were 11.43% lower, then stocks should be a much better buy now than they were on March 31, 2010. The only reasonable answer to the contrary is that lower earnings forecasts reinforced by the negatives mentioned earlier in the report will come to pass.

	9/30/2009	12/31/2009	3/31/2010	06/30/2010
Normalized Price-To-Value	74.10%	73.80%	68.40%	54.90%
Expected Return from Appreciation	7.39%	7.62%	8.34%	9.93%
Yield	2.25%	2.13%	2.10%	2.41%
Expected Total Return	9.64%	9.75%	10.44%	12.34%
10 Year U.S. Treasury Yield	3.31%	3.84%	3.87%	2.93%
Risk Premium	*6.33%*	*5.91%*	*6.57%*	*9.41%*

Source: Cornerstone Investment Partners

Earnings Expectations

S&P 500 Consensus Earnings Estimates

	2004	2005	2006	2007	2008	2009	2010e	2011e
EPS	$66.99	$76.29	$88.17	$86.20	$68.64	$65.27	$79.54	$92.23
% Change	20.8%	13.9%	15.6%	2.2%	-20.4%	-4.5%	21.9%	15.9%

Source: First Call

The estimated earnings for the S&P 500 for both 2010 and 2011 were both raised slightly since our last report despite wide spread fears that second quarter earnings of 2010 may have been disappointing and that the economy is declining again.

Dividends up in second quarter 2010 over year ago.

S&P 500 dividends paid to shareholders increased in the second quarter of 2010 over the year earlier quarter. This was the first year-over-year increase in quarterly earnings after six consecutive year-over-year quarterly reductions. The payout ratio on the twelve months earnings and dividends through March 31, 2010 is 25.6% and 74.4% of earnings are reinvested.

S&P 500 Reported Dividends

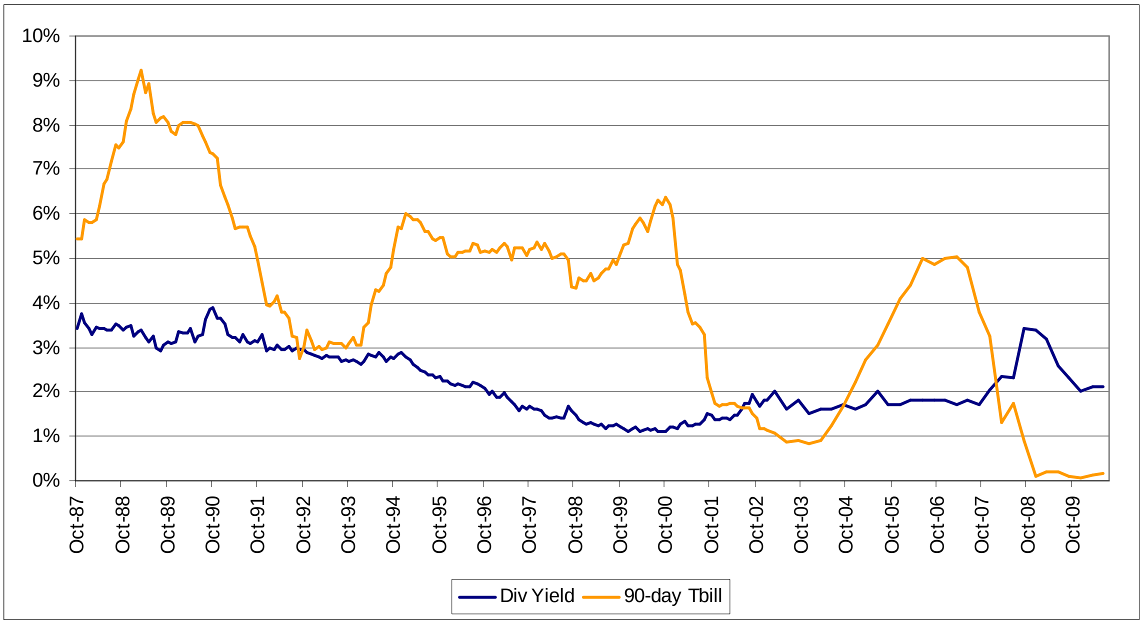
	2003	2004	2005	2006	2007	2008	2009	2010a
DPS	$17.39	$19.44	$22.23	$24.88	$27.23	$28.38	$22.41	
% Change	8.2%	11.8%	14.4%	11.9%	9.4%	4.2%	-21.0%	

Source: First Call

Returns on Short and Longer Term Treasuries

As of June 30, 2010, the 90-day U.S. Treasury bill provided 0.18% yield, a discount of 2.23% to the 2.41% yield on the 800 stocks in our universe. Falling stock prices and a small increase in dividends during the second quarter of 2010 increased the yield on the 800 stock universe from 2.10% to 2.41% while the continuation of tight monetary policy resulted in the 90 day U.S. Treasury bill yield rise by only a nominal 3 basis points. Generally the 90-day U.S. Treasury bill yields more than stocks. The Federal Reserve has been redistributing funds by restricting the income to those seeking safety of principal so that intermediaries can borrow at low rates and in turn can lend to their customers at rates that would otherwise be higher. .

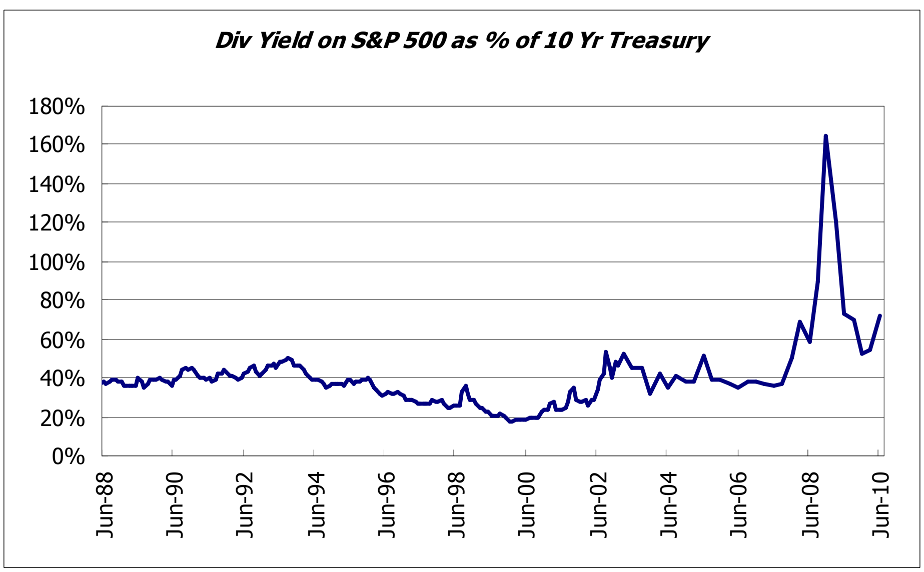
Yield on 90 day Treasury Bill vs. S&P 500 Dividend Yield



Source: Baseline

Chart II

The spread between the yield on stocks of 2.41% and the yield on the 10-year U.S. Treasury Note of 2.93% as of June 30, 2010 declined to only 52 basis points from 170 basis points on March 31, 2010. During the past quarter the yield on 10-year U.S Treasury Notes has declined slightly while the yield on stocks has declined slightly. The spread between the 10-year U.S. Treasury Notes and stocks is now more or less in line with historical norms. However, the current yield on the treasury notes does not protect investors for an increase in future inflation that will ultimately occur if Washington continues to spend recklessly. See Chart III.



Source: Baseline

Chart III

Fred Wetzel Jr., CFA
Cornerstone Investment Partners

Appendix:

Table I
800 Stock Model

	Discount Rate	P/E Ratio	Div Yield	Norm EPS	Price/Value Trailing EPS
12/31/95	6.25%	17.3	2.1%	119.0	92.3
12/31/96	6.75%	19.1	1.7%	134.8	108.4
12/31/97	6.25%	21.8	1.4%	144.4	117.4
12/31/98	5.25%	27.1	1.1%	151.8	132.1
12/31/99	6.50%	31.2	1.2%	186.9	165.1
12/31/00	6.00%	24.3	1.4%	148.9	129.4
12/31/01	5.00%	22.2	1.4%	116.2	117.8
12/31/02	4.00%	18.0	1.8%	83.7	88.8
12/31/03	4.50%	20.1	1.7%	103.6	103.7
12/31/04	4.25%	18.0	1.8%	99.6	89.9
12/31/05	4.50%	16.7	1.8%	98.2	80.2
12/31/06	4.75%	16.1	1.9%	108.2	85.6
12/31/07	4.50%	16.0	2.0%	98.6	80.1
12/31/08	3.50%	9.7	3.2%	59.1	51.9
9/31/2009	3.75%	15.2	2.3%	74.1	83.3
12/31/09	4.00%	17.2	2.1%	73.8	90.9
3/31/10	4.00%	17.2	2.1%	68.4	88.6
6/30/10	3.50%	13.6	2.4%	54.9	68.4
					A Price/Value ratio of 100 is fair value

Table II
Dow Jones Industrial Average

	Discount Rate	P/E Ratio	Div Yield	Norm EPS	Price/Value Trailing EPS
12/31/95	6.25%	16.8	2.3%	112.0	83.5
12/31/96	6.75%	18.8	2.1%	129.3	98.6
12/31/97	6.25%	22.1	1.7%	139.0	108.2
12/31/98	5.25%	27.2	1.5%	137.3	122.9
12/31/99	6.50%	33.4	1.0%	178.9	156.4
12/31/00	6.00%	23.6	1.3%	124.4	115.5
12/31/01	5.00%	24.2	1.4%	112.8	116.8
12/31/02	4.00%	18.5	2.0%	80.1	87.3
12/31/03	4.50%	20.6	1.9%	95.1	98.4
12/31/04	4.25%	17.3	2.2%	84.7	84.8
12/31/05	4.50%	15.9	2.4%	79.9	74.0
12/31/06	4.75%	16.3	2.4%	96.0	85.7
12/31/07	4.50%	15.5	2.6%	85.8	77.0
12/31/08	3.50%	10.6	3.8%	57.8	56.6
9/31/2009	3.75%	14.1	2.6%	68.8	78.3
12/31/09	4.00%	16.0	2.6%	70.3	84.4
3/31/10	4.00%	16.0	2.5%	63.4	81.0
6/30/10	3.50%	13.3	2.9%	52.8	64.2
					A Price/Value ratio of 100 is fair value

Source: Cornerstone Investment Partners