Suncoast Equity Management, Inc.

October 2, 2009

Dear Client:

SEM's performance of +15.83% through September 30th is solidly on the positive side, though it trails the +19.25% gain for the S&P 500. Our performance gap, in part, relates to the stock market's initial recovery being led by lower quality stocks. As the economy shifts from stabilization to recovery, it could be slow to build with specific bright spots. With the gains so far this year, we recommend taking a look at total return including last year to get a better perspective. The fact that you stayed engaged in the equity market, during the tough terrain of 2008-2009, proved healthier than the many that sold out near or at the bottom six to nine months ago. Our portfolio, we believe, is poised for solid relative returns.

Low Quality Lead

Below is a table highlighting low quality equities outperforming high quality by a substantial margin through July 31st:

Quality Indices	YTD Performance	Quality Indices	YTD Performance
A+	14%	B	35%
A	7%	B-	44%
A-	13%	C & D	82%
B+	21%	Not Ranked	45%

Source: Merrill Lynch

We believe this trend continued through September. Our portfolio is skewed heavily in high quality:

SEM Company Ratings	A+	A	A-	B+	B	NR	Total Holdings*
# OF STOCKS	9	4	2	6	0	1	**22**
WEIGHTED %	39%	17%	9%	26%	0%	6%	**97%**

***Excludes approximately 3.5% of assets in cash**

NR - Not Rated, only Google in our portfolio

Recovery Road?

The recession is running its course. With stabilization and starter fluid, in the form of unprecedented monetary and other stimulus including "Cash for Clunkers", the economy is reaching for recovery. Unemployment will likely rise above the 9.7% level last reported, though job losses are trending lower and productivity is rising. The housing market is still choppy at best. The economy is contracting but less so as inventory shelves reach depletion. The restocking process is underway but we believe that the consumption appetite could be slow to build. Consumer spending is an important component since it accounts for two-thirds or more of economic output. However, consumers are committed to reducing their borrowing and increasing their savings, and they should be! As reported by the *Wall Street Journal*, total household indebtedness peaked at the end of 2007 at 132% of disposable income, by far the highest level since World War II. By March 2009 the ratio had fallen to 124%, a bit lower but still nearly twice the level of 69% in the middle of 1985. As we identified in our July letter, the savings rate which had fallen below zero in 2005 (yes, we spent more than we earned), is back up. Higher savings and lower debt is positive longer-term. Less debt fuels confidence for greater consumption later on but it impedes a faster recovery.

One area we invest in that will lead the recovery and global growth is technology and communication. One of our holdings, **Google** (GOOG), celebrated only its 10th anniversary this past year. With wisdom and opportunity well beyond its age, we picked up on a few tidbits worth sharing from Co-founder Sergey Brin's 2008 letter to shareholders' written in March 2009. To see how far we have come in such a short period of time, how many of us know how far back the first web page was created? 1990 to be exact and in 1992 there were only 26 websites, by 1998 web pages numbered in the tens of millions. Fast forward today and the web itself has grown by about a factor of 10,000. The number of people today who use GOOG's services every day is in the hundreds of millions. Web pages today don't include just written content; they include images, videos, books, maps and more. GOOG owns *You Tube*, the world's largest video hosting site, and every minute 20 hours of video are uploaded, the equivalent of 114,000 new full-length movies every week. Video content is not just recreational, it includes instructional (recipes or how to ride a horse), those seeking freedom of expression - it is endless…and video on the web is still in its infancy.

As Sergey Brin concludes *"it is impossible to predict far into (technology's) future….the past.. tells us some things to expect….computers will be 100 times faster…..while half the people in the world are online today, the internet will reach billions more in the coming decade…everyone will be more productive…..when I was a child, researching anything involved a long trip to the local library and a good deal of luck that one of the books there would be about the subject of interest. I could not have imagined that today anyone would be able to research any topic in seconds."* Any neither would any of us!

<u>What have you done for me lately?</u>

In conjunction with our comments above about low quality stocks outperforming indices so far this year, be mindful that it is human nature to focus on the "what have you done for me lately" and forget about last year. To get a clearer perspective how the recovery is shaping up for your portfolio, you have to combine last year with year-to-date returns. If you had a mutual fund that was down in excess of the -37% return for the S&P 500, which many were, but it is ahead of the return of the S&P 500 in 2009, it might look like Mutual fund A (Long Leaf Partners in this example below). If you had Mutual fund B (SEM's actual returns) that declined less in 2008 but is lagging a bit in 2009; you can see that Mutual fund B is meaningfully ahead and closer to getting back on track.

	2008	**2009 YTD**	**Value of $1 2008 - 2009 YTD**
Mutual fund A	-51%	45%	$0.71
Mutual fund B	-30%	16%	$0.81

<u>Double Black Diamond</u>

Our applause goes out to investors that stayed the course while many investors did not. One statistic that demonstrates this is U.S. Money Market Fund assets as a % of the S&P 500 market value. The ratio had averaged 18% from 1980 up until the bear market of 2008. In March of 2009 money market assets as a % of the S&P 500 market value peaked at 65%, signaling that many, many investors sold at precisely the wrong time, the bottom of the market.

Along the way to preserving and growing capital, stocks, as well as bonds and cash, are suitable asset choices and allocation depends on the individual's needs. For stocks, the strong rebound of over 50% since March is a reminder to keep your commitment intact per your long-range plan. You engage us because we put together a portfolio of stocks whose underlying value marches upward over the years, albeit with temporary but not permanent setbacks. You have also learned from us that in the short run stock prices can be drastically different than the intrinsic value of the business and during these conditions SEM acts accordingly on your behalf in managing the portfolio. You should be proud of your decision to stay in the saddle; you understood that while the price of all our stocks fell substantially during this recession; the business values did not. Education of our clients is a key goal and we take pride in the fact that nearly all of our clients stayed the course. This is a continuous journey and not a single ski slope, notwithstanding the market we experienced together is the equivalent of a Double Black Diamond and although we are still working this same slope we had the strength to get through a most difficult passage.

In our view, we have a sputtering economy which could experience an uneven return to growth. Nonetheless, we believe that the outlook for relative performance in our portfolio is strong; our portfolio of high quality companies is priced at a discount to the market averages and is made up of companies that are growing their recurring revenues and profits in a global marketplace. Please call anytime and thank you for your confidence.

Sincerely,

Donald R. Jowdy
President

Suncoast Equity Management, Inc.

Performance results versus the Standard & Poor's 500 Index

Time Period (Ended 9/30/09)	**SEM % Return***	**S&P 500 % Return**	**SEM - Value of $1,000,000**	**S&P 500 - Value of $1,000,000**
One- Year	-5.83%	-6.87%	$ 941,700	$ 931,130
Three-Year	-1.97%	-5.44%	$ 942,000	$ 845,400
Five-Years	+0.53%	+1.00%	$ 1,026,600	$ 1,051,100
Seven- Years	+3.92%	+5.84%	$ 1,309,500	$ 1,488,000
Ten- Years	+3.51%	-0.17%	$ 1,412,300	$ 983,400

* Composite results of all SEM managed accounts, net of all fees.
Note: Performance results for the three, five, seven and ten year periods represent the annual average rates of return.

SEM Composite Account
vs. the Standard & Poor's 500

Year	**SEM***	**S&P 500**	**Relative Results**
1998	26.19%	28.57%	-2.38%
1999	24.10%	21.03%	3.07%
2000	4.50%	-9.15%	13.65%
2001	0.35%	-11.91%	12.26%
2002	-10.98%	-22.15%	11.17%
2003	20.12%	28.62%	-8.50%
2004	12.52%	10.96%	1.56%
2005	-0.51%	4.86%	-5.37%
2006	8.20%	15.77%	-7.62%
2007	10.13%	5.48%	4.65%
2008	-30.10%	-37.03%	6.93%
YTD through Sept 30, 2009	15.83%	19.25%	-3.42%
Since Inception (Overall Gain)	89.66%	33.13%	56.53%
Average Annual Gain	5.60%	2.46%	3.14%

Suncoast Equity Management's (SEM) performance is Net of All Fees.

Highlight denotes years of meaningful underperformance.