BCM
Growth | Preservation | Partnership
Bourgeon Capital Management, LLC
777 Post Road | Darien, CT 06820
Direct 203-280-1170 | Fax 203-662-1100
www.BourgeonCapital.com

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Given the volatility of the markets we decided to send out an intra-quarter update.

From June 30, 2011 through September 2, 2011, the S&P 500 declined 11%. At BCM, while our performance benefitted from our increased cash positions, we were not immune to the decline. The sell-off began after a few weeks of unsettling information about the European debt crisis and data pointing to a global growth slowdown on the backs of global austerity. Finally, the S&P decided to downgrade the US debt by one notch. The rationale behind their decision was that our latest debt reduction package was not large enough to bring down our debt balances to an appropriate level, coupled with their view that our government was unwilling to make the future hard decisions that will be necessary to bring the debt down even further. Corporate and consumer confidence on a global basis has now eroded significantly, in many ways creating a self-fulfilling prophecy of global economic weakness. Double-dip recession is back on everyone's mind.

Over the upcoming few months we hope to get some resolution of the uncertainties surrounding us and a clearer understanding of the economic trends, but undoubtedly headline risk still remains a big concern. In the US, Obama will propose a much needed jobs growth initiative, Bernanke will extend the Fed's September meeting with the hope being that they will provide additional stimulus of some measure (although admittedly growth from here is more a fiscal issue), and the Super Committee will begin deliberations on debt reduction. In Europe, there will be voting on austerity measures and the approval for the European Financial Stability Facility.

We have not changed our view that the economy is in a slow two-step forward, one-step back recovery process. We believe that the barbell strategy that we have been following continues to be relevant. We hold GARP (growth-at-a-reasonable-price) stocks for the two-steps forward part, and we hold high dividend yielding defensive stocks to help support the portfolio during the one-step back timeframe.

The volatility requires us to be nimble. As you know, we went into July with an overweight position in cash. We continued to take opportunities to sell or trim positions when stocks appeared overpriced relative to the risks that were developing.

However, the sell-off also provided opportunities. Most important, we believe that we should be using our cash to buy strong companies with good dividends and/or strong balance sheets that have secular growth stories whether or not the economy grows. We are looking at stocks that have been beaten down in this selloff. We plan to add slowly and make adjustments should circumstances change.

We were also slightly underweight bonds going into August. Our belief had been that with the end of QE2 and the possibility of the US being downgraded, yields would rise and that we should wait. However, for Treasuries this proved to be incorrect, as demand rose and yields declined in the US. In fact, the yield on the 10-year at one point dropped to under 2%, to the lowest levels ever recorded. This compares with a 3.5% level just 6 months ago. On the flip side, it was the correct strategy for corporate bonds, which had their worst month in 30 years as spreads widened. We expect to be reinvesting the cash in corporate bonds over the upcoming month or so, keeping the maturities short. Given the low rates, it is clear that investing in the bond market is only a preservation game at the moment.

We look forward to speaking with you soon and thank you for entrusting us with the management of your money.

Sincerely,

John A. Zaro III, CFA
Managing Partner

Laura K. Drynan, CFA
Partner