PROFESSIONAL FINANCIAL MANAGEMENT, INC.

945 Technology Blvd., Suite #102, Bozeman, MT 59718

April 12, 2010

Dear Client,

We hope this letter finds you well. Enclosed, please find your 1st quarter 2010 investment performance report.

The old adage "what a difference a year can make" is a perfect lead to this letter. This time last year we were writing you about the dismal start to 2009, despite the quick three week run-up we had right at the end of the March. At that time, pessimism and fear were entrenched in the minds of most investors, and the short run-up we experienced was a being referred to as a "suckers rally", with most experts predicting that the market would give this back and potentially reach new lows.

Now, here we are in April of 2010. As of the writing of this letter, we are seeing US Markets (and markets around the world) work their way back to levels that many experts believed unthinkable a year ago. Sticking with the strategy and keeping that long-term focus has allowed all our client portfolios to recover nicely, something that can't be said for a great many investors who, out of short-sightedness, got out and never made it back in. As we stressed to you our belief that the markets would rebound and eventually make a recovery from their lows, we have been somewhat surprised (as have many experts) at the speed with which it has taken place given the numerous other issues we face.

While providing a tremendous boost to investor morale and at the same time restoring confidence in our system, one does have to wonder if equity markets have risen too fast – in other words, are we standing on firm ground or are we on pace to re-visit the now termed "irrational" levels we experienced at market heights in late 2007? No one can say for sure and we know history has shown that trying to "outguess" what the market is doing and where it is going has proven futile. We can hedge our bets, however, through the implementation of academically based market research to help make sense of where we are currently and to aid in making decisions needed to keep our client portfolios ahead of the curve.

One such piece of research we find particularly useful compares the current overall valuation of the market with historical longer term trends. Professor Robert Shiller of Yale University pioneered this research and has used it as a way to gauge the current state of the market and use this data to provide a glimpse of how it may perform going forward. According to his most recent data, the market is slightly overvalued relative to historical trends. While there are many other factors that figure into this conclusion (combined with the fact that many experts have arguments to the contrary), we can surmise that equity values (on the whole) have at least risen to a "full" or "fair" valuation at this point.

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So how does this relate to your portfolio? We are currently underweight bonds in many client portfolios as over the past two years we have drawn down these positions for income purposes in many client portfolios in lieu of selling depressed equity positions. As well, we purposely underweighted bonds in favor of equities when the market became clearly undervalued. Our feeling is that, as the bond market continues to make incremental improvements, we will look to re-balance out of equities to bring up bond positions. While the Fixed Income market is not a particularly attractive place to be right now, short maturities will be used with a view to ease back into Treasury Inflation Protected Bonds as yields improve. We will keep you posted as to what moves will be made in your individual portfolios. Keep in mind here that this is not a “market timing” move. Rather, it is really just about getting the client portfolios back to their long-term target allocations.

In summary, we are in a much better place than we were just a year ago. History is not a perfect guide, but it does give us an idea of what can be expected. So far it has proven to be a fairly accurate barometer.   As we have done our best to assure you, markets do recover and patience is ultimately rewarded. Again, we can’t control what markets do, but we can put our knowledge to work by positioning client portfolios to “weather the storm” and then, move forward as things improve - right now we are focused on the latter.   Each of our quarterly letters over the past year has concluded by commending you on your focus and discipline to stay the course – this one is no different. As Investors, we are always going to be faced with challenges, good economic times and bad. That said, we encourage you take a second to give yourselves a pat on the back for being resolute and for letting the strategy, not your emotion, dictate your decisions as long-term investors!

Yours Truly,

Doug Babcock

Bob Frey