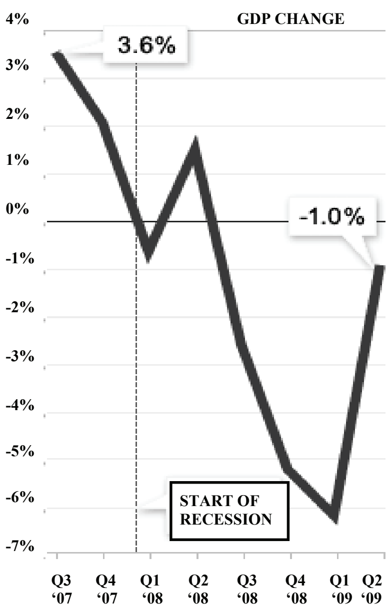
QCI
ASSET MANAGEMENT, INC.
INVESTMENT UPDATE

Volume 1, Issue 1
Autumn 2009

Economic Outlook

Recession nearing an end?

The economy is still contracting but at a much slower pace.

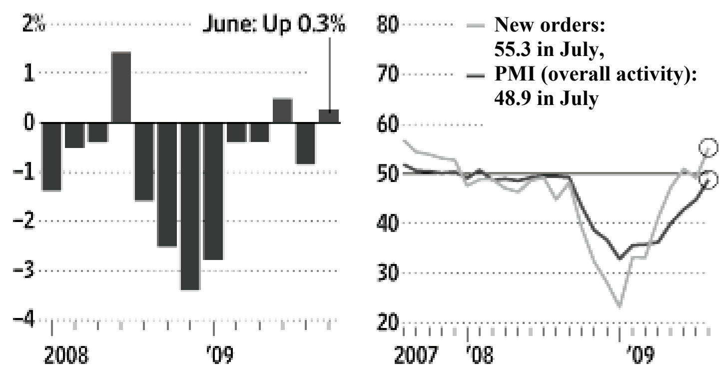


Source: CNNMoney.com

Hopeful Signs for the Economy

Another housing-sector indicator edges up …
Change from the prior month in total construction spending

And manufacturing barometers suggest recovery
Indexes of manufacturing activity



Notes: Seasonally adjusted data. Index readings above 50 signal growth; below, contraction.
Sources: Commerce Department; Institute for Supply Management

Source: wsj.com

Worldwide economic recession is persisting through the summer of 2009, but the rate of economic decline is now clearly abating. Signs of economic stabilization are still inconclusive, but are now occurring with increasing frequency, and are accumulating to a level suggesting that the recession will end in 2009. We expect that economic recovery will be underway in late 2009 and early 2010. Indications of unprecedented strain in the credit markets since autumn 2008 have given way to increasingly improved readings, further supporting economic stabilizations/recovery later this year.

Though economic recovery appears at hand, the pace of recovery should be weaker than that typically following a deep economic downturn. Restrained bank lending and ongoing consumer balance sheet repair will dampen growth for an extended time. With high levels of slack in labor markets and low capacity utilization, inflation risks remain low in the near term, allowing the Federal Reserve to keep interest rates unusually low and liquidity plentiful for now. A restrained but persistent recovery with low but gradually accelerating inflation appears the highest probability outcome through 2010 at this point.

Bond Market-Taxable Sector

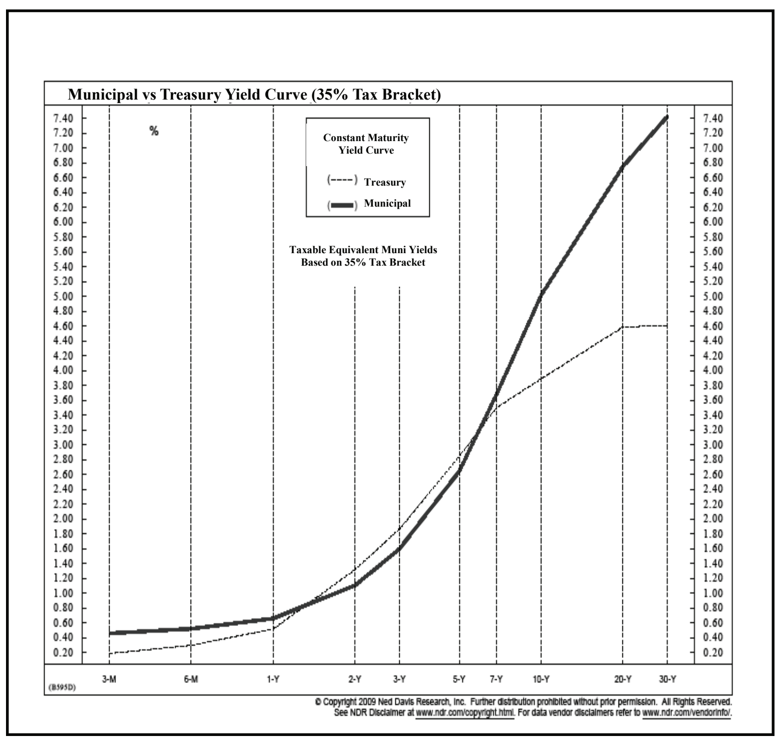
- U.S. Treasury bonds, the performance leaders during the worldwide bear market of 2008, have fallen sharply in price thus far in 2009.
- The demand for "safe-haven" investments has receded, with growing indications of economic and credit market stability.
- QCI has maintained minimal/no exposure to Treasuries thus far in 2009. As we expect continuing upward pressure on Treasury yields, we will continue to utilize callable Agencies for our Government bond exposure in the current climate.
- The historically wide yield spreads on high-grade corporate bonds have tightened considerably thus far in 2009, leading to strong outperformance from this sector versus Government bonds.
- Given this contraction in spreads and strong relative performance, we have begun to unwind our strong overweighting of investment-grade corporates in recent weeks. Concurrently, we are increasing our weighting in the callable Agency sector, while maintaining below-benchmark portfolio durations.

Tax-Exempt Bonds

- As with most sectors of the bond markets, muni bond yield spreads spiked sharply upward in late 2008, reflecting extreme risk aversion and unprecedented pressures on the credit markets. Though the abnormally wide spreads of autumn 2008 have contracted significantly in recent months, muni bonds continue to trade at historically attractive taxable-equivalent yields versus Treasury bonds, for taxable investors.

- Persisting wide spreads reflect the severe fiscal strains on state budgets caused by the ongoing recession - the inherent risk associated with muni bonds is elevated in the current climate.

- QCI has always focused on the high-quality, lower risk sector of the muni bond market in structuring client portfolios. Given heightened fiscal stress and above-average risks now present in this market, we are focused on the following characteristics and strategies in building muni bond portfolios:



* Diversify portfolios beyond single state issues, where appropriate.
* Continue to seek acceptable bids on lower quality names and structures, for potential sale.
* Maintain current average maturity target of six-eight years.
* Emphasis on General Obligation bonds, with a minimum "A" underlying ratings.
* Revenue bonds will be restricted to those whose repayment is a general obligation of the underlying entity (e.g., universities), or which have other credit support beyond insurance (e.g., FHA guarantees).

Stock Market Outlook

We believe that stocks made their cycle lows in March 2009. Near term, volatility will remain high. Further appreciation will be constrained in the short run by the magnitude of the recent rally from the March 2009 lows, and by lingering economic weakness - but our longer-term outlook is positive for stocks.

Mid 2008:

QCI's economic and market outlook turned more negative, leading us to implement several defensive repositionings within our equity portfolios.

2008 Bear Market: In mid 2008, as the severe dislocations in the financial/credit markets unfolded, QCI's economic and market outlook turned more negative, leading us to implement several defensive repositionings within our equity portfolios.

- We raised and maintained higher than normal cash positions.
- We reduced our exposure to the financial sector, and concentrated our remaining financial sector exposure into the strongest and most conservatively positioned companies.
- We lowered our exposure to the technology and industrial sectors, while maintaining over-weighted positions in defensive sectors such as utilities and health care.

2009 Bottom and Recovery Rally: As the stock market fell to cycle lows in early 2009, most of our market-based indicators (valuation, monetary and fiscal policy; investor sentiment; price momentum) were "flashing green", and supportive of a more positive stance on stocks, despite the pervasive gloom. We acted upon those indicators, and on our convictions that the bear market had largely run its course in early 2009.

- We drew down a portion of our high cash positions, and reallocated that cash to stocks.
- We increased our exposure to more cyclical sectors of the market, in anticipation of improving economic indications over the course of 2009. Weightings were increased in selected financials, basic industry, industrial, and consumer cyclical sectors.

Current Strategy: While our longer term outlook for stocks remains positive, we would not be surprised by a near-term leveling out, or a brief bout of profit-taking, impacting the stock market over the next few months. Stocks have rallied 50% from the March lows to recent highs and some consolidation of recent gains appears likely. We have selectively trimmed extended positions, and have eliminated positions that have achieved price objectives in recent trading. We will deploy those sales proceeds back into equities in a disciplined and price-sensitive manner in the weeks and months ahead, tempering our longer term bullish expectations with a measure of near-term caution.

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Reminder: Maximum Benefit and Contribution Limits for 2009

Estate Tax - Unified Credit

2009: $3,500,000
2010: Estate tax "repeal"
2011: Estate tax "returns": $1,000,000; inflation-adjusted in future years

Annual Gift Tax Exclusion

2009: $13,000 per donee, per year

Phase-out AGI Levels

Roth IRA Eligibility:
$105,000— $120,000 (single)
$166,000— $176,000 (joint)

IRA Deductibility:
(with company pension)
$55,000—$65,000 (single)
$89,000—$109,000 (joint)

Social Security/FICA:
Taxable wage base: $106,800
Payroll tax rate: 6.20% (max. $6,622)
Medicare tax rate: 1.45% (with no limits)

401(k)/403(b) Plans

Maximum Deferral:	$16,500
Over Age 50 catch up:	$5,500

Maximum Annual Contribution: $49,000, or 100% of compensation

IRA limit:	$5,000
IRA catch-up:	$1,000
SIMPLE limit:	$11,500
SIMPLE catch-up:	$2,500

Defined Benefit - Maximum Annual Benefit: $195,000

We're on the web: www.e-qci.com

QCI ASSET MANAGEMENT, INC.

40A Grove Street
Pittsford, New York 14534

Phone: 585-218-2060
Toll Free: 800-836-3960
Fax: 585-218-2013