ELLIOTT ASSET MANAGEMENT

San Diego, CA

Voice: 1-888-99-ELLIOTT
Fax: 619-550-3773

EAM Update – July 31, 2009

So far…a Wild, Wild 2009!
2009 has, so far, turned out to be an interesting year, indeed! Markets went into a free-fall from the beginning of the year through March, only to rebound with one of the strongest rallies ever. And now I believe the markets should moderate. Though I do believe there are still significant opportunities in stocks, I don't foresee the need for significant asset allocation changes in the near future.

So, for now, we are back to 'normal'
Over the past 18 months the markets have experienced virtually unprecedented volatility. Events drove violent changes in asset valuations necessitating an unusual amount of asset allocation changes and, therefore, communications from us explaining the rationale for our actions and inactions. It is likely we will now return to more infrequent newsletters with smaller interim bulletins issued as conditions warrant.

Kudos – and thank you – to all!
During the market's depths I am sure many of you were an inch away from despair. I am also sure that many of your friends and colleagues, and/or their advisers, gave in to the panic and hit the sell button. Thank you for standing firm with me through those trying times: none of you forced my hand into selling at the height of the market panic. And congratulations are due to those of you with whom heeded my call to increase your investments near the bottom of the market.

An update on our capital improvements
Over the past 6 months EAM has invested significant capital (both time and money) into improving and automating many of our systems. After repeated disappointments and numerous unresolved errors with the third party developers, we had to make the difficult decision to cease development of the new software and Internet platform. We are actively exploring alternative solutions. Those alternative solutions include reverting back to our more simple (yet labor intensive) reporting, co-developing another platform with another third party or merging our back-end operations with another registered investment advisory firm. The software platform we invested in is owned and operated by Scottrade, but after problems with the software development and after several of you have reported customer service problems at local Scottrade branches, we are even considering changing our custodial firm. As always, we will keep you apprised of all future developments.

An update on our investments - Boring Bonds? Hardly!

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Earlier in 2009, we loaded up many of our retirement accounts with corporate bonds interest rates effectively yielding, in many instances, exceeding 10% for 10 to 30+ years. The reason for the high yields was the overall market pessimism and panic selling which temporarily drove the price of the bonds down to a fraction of their face value (many of your friends and their advisors in their panic sold us bonds very cheap!).

For instance, a $1000 bond with a stated yield of 5% would pay $50 per year in interest. If panicked sellers were willing to part with their bonds for only $500 then the effective cash yield to us becomes 10% -- we still get paid $50 on our $500 investment (and the *net* yield to maturity is actually *higher* because we still are paid the original $1000 purchase price of the bond at maturity). Early this year we picked up numerous investment-grade bonds trading for around 65 cents on the dollar of face value – and some for even less than 50 cents on the dollar!

When purchasing these bonds, our *intention* was to hold many of them until maturity; we certainly did not anticipate trading them in the near future. However, we may soon be doing just that with some bonds. Why the sudden change of heart? Because the market value of the bonds has gone up to such an extent that many are *already* trading at prices approaching – or even exceeding – their $1000 face value! In other words, the same funds and individuals that dumped these bonds on us for 50 cents on the dollar are willing to buy the back from us at close to full price a few short months later. At the current value the effective yields on these bonds have fallen back to the mid-single digits. Essentially we have an opportunity to be paid much of the return we anticipated receiving over many years all at once; we shall act upon that opportunity under the right circumstances.

Entertainment Properties Preferred Shares
Even though in many instances the value of our preferred shares in EPR have more than doubled (while paying us a fat dividend yield of up to 24% on the original purchase price), as of yet we are not considering selling these shares. With the increase in value of the underlying shares the effective dividend yield *has* fallen to around 9% to 10%. However, I *still* believe the current dividend yield is attractive for the level of risk involved. An attractive bonus is that many of our preferred shares are convertible into EPR common shares which provides us with unlimited up-side potential that the bonds we may sell cannot match.

Overall outlook for investments
Overall, despite the strong rally the market has experienced, I still believe there are many long-term compelling values to be had by investing in equities (and in certain locales, investing in residential real estate), though stock values are certainly not as attractive as they were in March. However, because I still believe there is a sufficient long-term

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upside potential in the market I do not believe we should institute wide-spread use of stock option hedges to protect us from the down-side risk at the expense of giving up some up-side potential return, as we had done with many accounts before the market crash.

Please share the good news!
Please drop our name when you hear your friends and colleagues discussing how they or their advisors panicked during this spring and/or how they lost money during the real estate bubble. As most of you know, it is my firm belief that most "advisory" firms charge too much for services that, more often than not, do more harm than good for their clients. I truly believe the model we are using to build our business is genuinely different. Please consider sharing an opportunity for those important to you to receive clear and comprehensive advice from an advisor with a proven track record. As always we do so in an environment free of sales pressure, conflicts of interest, sales scripts and gimmicks.

Warm Regards,

Mark Elliott, President

Elliott Asset Management

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