

October 1, 2009

Dear Friend,

It has been a great nine months for Integre Advisors. Our Diversified Equity Composite rose 34.7% vs. 19.3% for the S&P 500, outperforming the index by 15.4%. Our Concentrated Equity Composite rose 53.1%, outperforming the S&P 500 by 33.8%. For the third quarter, our Diversified Equity Composite rose 14.3% vs. 15.6% for the S&P 500; our Concentrated Equity Composite rose 18.3%.¹

Since we declined by substantially less than the S&P 500 last year, and rose by substantially more than the index this year, our Diversified Equity Composite only needs to rise an additional 5% to be where it was on January 1st 2008; the S&P 500, by contrast, would need to rise 33% to reach that level. We are pleased to report that our Concentrated Equity Composite has already exceeded its January 1st 2008 level.

These last couple of years have been among the most volatile on Wall Street, and the past nine months were no different. After bottoming in March, the market moved up 35% through the end of the second quarter due to a reduction in panic as economic results came in less bad than feared; to put it simply, the market was surprised we did not have another Great Depression. Then, during this past quarter, the market moved up another 15% due to better-than-expected corporate profits, the result of corporations having already significantly cut costs because they had feared such a Depression might materialize.

¹ Preliminary performance figures are unaudited. Past performance may not be indicative of future results and every investment program has the potential for loss as well as profit. The diversified equity composite is the dollar-weighted linked monthly return of those accounts sharing the objective of a diversified equity portfolio that are greater than \$250,000 in size. The concentrated equity composite is the dollar-weighted linked monthly return of those accounts sharing the objective of a concentrated equity portfolio that are greater than \$250,000 in size. Accounts are added to the composite on the first day of the month following our first 30 days of managing the account and must be in the composite for a full calendar quarter before inclusion. Portfolios are excluded as of the last full calendar month under management or at such prior date as Integre Advisors receives notice of termination. Individual account results will vary from that of the composite based on fee structures, investment restrictions, the timing of contributions and withdrawals and other factors. Comparisons to the S&P 500 Total Return are for informational purposes only, as the composites may hold securities not in the S&P 500 Total Return and may have more or less volatility and risk than an investment in the S&P 500 Total Return.

In the midst of this abrupt shift, we achieved our results by doing what we do best: positioning ourselves ahead of the trend. For example, last winter and spring we bought a number of out-of-favor small, cash-rich, cyclical companies that we believed could give us a solid return even if it took two years for the economy to recover. In the event that the economy were to recover more quickly, then so much the better. Recently many of these investments were bid up as portfolio managers' fear of a collapsing economy abated, and was replaced by an even more potent one: fear of trailing their benchmarks.

Looking ahead, the market may well move up yet again, driven by a better-than-expected recovery of the beleaguered American consumer. Year-to-date, fewer and fewer people have become unemployed every week, but there are still more people being laid off than hired. At some point, perhaps this spring, the number of unemployed people in this country will go down and then Americans should feel more comfortable spending, not just those who are newly employed. While it is true that over-indebted US consumers will no longer be the driving force of global growth that they once were, they are not to be underestimated. As 70% of the world's largest economy, the US consumer will continue to have a big impact on global corporate profits.

Keeping all this in mind, we have recently taken the opportunity to buy some out-of-favor retailers, specifically a supermarket and a "dollar store." With disappointing sales and substantially reduced share prices, we think these companies represent a great risk/reward. If the consumer gets back on his feet in the near-to-medium term, these share prices should appreciate substantially. If the consumer does not recover, at least we have not paid dearly for the opportunity.

Lately, as investors have been busy chasing cyclical stocks higher, we have been able to buy a number of companies at deep discounts in less risky industries: a defense electronics manufacturer, a genetics testing company, and an on-line university. With this eclectic mix of out-of-favor stocks, we endeavor to be prepared whichever way the economy moves.

Currently, corporate cash balances as a percent of tangible assets is at its highest level since 1951. As a result, there has recently been a resurgence in mergers and acquisitions. While such activity may continue, helping to push the market higher, serious geopolitical issues in Pakistan and Iran could easily derail the upward momentum. It is also important to remember that even if the economy continues to recover, it and the stock market do not move in lock-step. Given this many variables, the market could trade sideways for some time, however, such an environment would not necessarily preclude our ability to make money. On the contrary, it is important to remember that the market has traded sideways for the bulk of these last five years, and during that period the Diversified Equity Composite has increased 34.6% and the Concentrated Equity Composite has increased 56.0%, while the S&P 500, by contrast, has only increased 5.2%.

On the corporate front, we recently came across a report put together by Northern Trust, a \$75-billion trust bank which has been selecting investment managers for over twenty five years, indicating that managers with fewer than \$2 billion in assets under management “enjoy a consistent advantage over industry leaders” and that “this edge is most dramatic in bear markets.” Further, Northern Trust reports: “We hear over and over again that institutional clients hire the largest firms because they view them as safer than emerging firms. In reality, this decision is just another over-crowded trade that may expose clients to excess volatility and nasty surprises.”

The report was confirmation of what we have always believed to be the case, and what inspired us to start Integre back in January, 2004. There is nothing we like more than growing your portfolios, and we look forward to continuing to do so for many years to come.

With All Good Wishes,

Manny Weintraub, CFA
Managing Director