



CAMBIAR INVESTORS

4Q 2009

CAMBIAR INVESTORS: 2009 YEAR END INVESTMENT COMMENTARY

Overview

The final quarter of the decade of the 2000s, or more colloquially the “aughts” as the now-passed decade is termed, bore little resemblance to the volatile and erratic financial conditions that preceded it. The S&P 500 Index rose by 6.1% and the more tech heavy Nasdaq Composite Index by 7.2% in the quarter, though in each case most of the return occurred in the first couple weeks of October. By mid-October, a subdued mood set in, not necessarily one of caution but more akin to a football team that by the early minutes of the fourth quarter had built an insurmountable lead. A great many market participants elected to “run out the clock” and pull their starters from the field – trading became discernibly quiet and non-directional, and stocks just did not move very much. After enduring the single most volatile financial market (by a wide margin) in post-Depression America, the boredom of the final 90 days of the year was entirely enjoyable.

For the full year 2009, the U.S. stock market rose by 26.5% as measured by the S&P 500 Index, the second best performance of the dismal ‘aughts decade. Though 2009 commenced with a fierce selloff that reflected widespread fears of continued financial and economic dysfunction and the potential for a modern global depression, evidence mounted early in the year and continued throughout that these extreme outcomes were not coming to fruition. With stocks priced for a calamity, there was ample opportunity to recover lost value. Almost every stock market in the world registered a material double digit percentage gain for 2009, following the horrific declines of 2008 when 100% (yes, every single one) of the world’s major stock exchanges registered losses and generally massive ones. Breadth was excellent and the averages understated the improvement in valuations globally in varying degrees. For Cambiar Investors, 2009 was (statistically) the best year in our 37 year history. Our Large Cap Value strategy returned 40.3% (39.7% net), exceeding our prior high return of 36.8% (34.8% net) in the 1975 recovery from the last truly horrific bear market in 1973-74. In other strategies, we generated returns of 47.8% (46.3% net) in our Small Cap, 38.6% (37.2% net) in our international ADR, and 51.1% (49.9% net) in our Global Multi-Cap Value. We normally don’t grouse about our statistics in these letters. But those are unusual numbers; we don’t expect to generate anything like them for years if ever, as we certainly hope never to endure a similar sequence of financial market collapse and recovery that served as the springboard to

2009 for the balance of our careers. It does feel awfully good to help our clients participate to that extent in the recovery rally that began in March 2009.

Thoughts About The ‘Aughts

While 2009 was clearly a good year to own stocks and to stay constructive in the face of obvious concerns, the recovery of 2009 simply made the ‘aughts *less bad*. The recovery of 2009 will shortly dim from memory, to be replaced by the misfortunate label as the final year in the worst decade for equity returns in the otherwise long and generally favorable history of the U.S. stock market. For the decade, the S&P 500 Index generated a 10-year loss of -10% including dividends, and a loss of -24% without them, while the tech-led Nasdaq Composite, the supernova of the preceding decade, produced a 10-year loss of -44%, or -41% including dividends. In the interim, one had to negotiate two market crashes of -50.5% and -57.4% for the S&P 500 and a vastly worse combination of -78.4% and -55.7% market collapses for the Nasdaq Composite at the front and back ends of the decade. The venerable Dow Jones Industrial Average generated a relatively less harrowing loss of -9% for the decade and an actual net gain of +14% for the decade including dividends, though arguably with 6 of the 30 Dow components requiring some form of public sector assistance to stave off (or simply delay) bankruptcy in the 2008-2009 financial collapse, perhaps the old Dow Index says even more about the perniciously bad state of affairs for old line American companies entering the ‘tens.

The Big 4 Calls of the 2000’s

Stocks, and especially U.S. stocks, have not performed well in the last 10 years. To avoid losses even greater than what the markets dished out one needed to make at least two or three timely and accurate decisions about the following:

1. At the end of the 1990s, one needed to rotate capital aggressively out of large cap growth and technology investments because they were (astonishingly) overvalued. As these dominated cap-weighted indexes, this became in essence a market call.

2. As the recession of 2001-02 ended, one needed to be constructive particularly on the very industrial, commodity, and “old economy” businesses which were not en vogue at the start of the decade.

3. As evidence mounted that a housing and financing bubble was rolling over in 2007, a conservative and skeptical bias regarding the ultimate resolution of these credit imbalances and the impact on fundamentals and valuation was exceedingly beneficial.

4. After the markets collapsed in 2008 and central banks avoided the mistakes of the 1930s by reliquefying the system, the same skeptical bias became unproductive and needed to switch to an optimistic bias.

- One could have avoided any need to get any of calls 2 through 4 right by holding bonds and commodities, as the returns on these asset classes greatly outclassed those of equities. Given the super-normal returns of these asset classes relative to equities over the last ten years, the case for them today is much less clear.

Arguably, all four “big calls” represented against the grain, against the then-prevailing financial wisdom decisions, and in each case represented stark 180 degree reversals from prior trends. After all, a scant ten years ago U.S. unemployment reached a generational low of 3.8%, we ran a budget surplus (!), and the dominance of U.S.-style capitalism was unquestioned. And yet stocks had priced this ideal scenario in and then some, leading to inevitable disappointment and a variety of unpredictable consequences, as one by one, all the positives cited above mutated into negatives. Arguably, the rally that commenced in March was similarly counter-intuitive, but occurred within a context of overwhelming valuation support. These contra-trend investment decisions are not easily made in general, and certainly not given the emotions that the extreme ups and downs of the decade naturally stoke. I personally don’t know many people that managed to get all four big calls right and on time. We did well with #1 and #4, and only so-so with respect to #2 and #3.

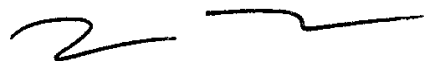
In the more financially productive decades of the 1980s and 1990s, one did not have to do a lot of flip-flopping. Markets had a clear course; investors did far better by *not* changing their stance appreciably and by focusing on company specific and industry specific fundamentals. The same could be said of the markets from the mid 1940s to the early 1970s, before a steep inflation cycle stole returns away. Will the ‘tens represent a departure from the lurching of markets to and away from extreme outcomes? Arguably it ought to, though there may be clear instances where secular global trends should retain influence to one’s positioning.

For the last few years, our quarterly communications contained a decidedly “macro” character to them, which though not by premeditated design, aligned rather well

with the overwhelmingly macro-dominated investment backdrop of the last few years and especially the final third of the 2000s. We have received generally positive feedback from clients for our efforts to be thoughtful on these big picture topics. But just as it has been necessary to make sudden and relatively stark shifts in one’s approach to financial markets owing to the extreme ups and downs, it is perhaps time to make an abrupt departure from macro / economy toned letters and towards company / sector specific communications. While we still have our views on the bigger picture (we believe the U.S. will gradually grind its way out of today’s obvious headline negatives, provided that the poor state of public sector finances is rectified constructively), these will become regular papers available on our website (www.cambiar.com) for client consumption, and we may even go a bit further in having some audio-visual accompaniment to our big picture musings. But – provided that financial outcomes prove to be something other than a series of countertrend extremes, where we will succeed and be most impactful for clients is by getting the company specific analyses right and implementing such insights in our portfolios. This is particularly relevant alongside a market that is valued at a slightly below average level, but not altogether extreme one way or the other. Therefore, our communication in coming quarters will lean towards being much more stock specific for the foreseeable future.

We are not going to hazard a conjecture as to where the markets will go in 2010, or what the precise path to the destination will be. We really don’t know. While the recovery off the low has been breathtaking, the decline to get to the low was all the more so. A lot of value remains on the table. We are exiting a decade in which a lot of paper wealth evaporated and where the tides worked against wealth creation. But there were opportunities and net positive results were achievable. What is abundantly clear, even against this backdrop, is that *value investing works* - provided you get your analysis correct. We see a lot of value in the marketplace currently. We won’t get every analysis correct but we have been getting a lot of them right. Hopefully we will find the wind more to our backs than to our fronts as the coming years progress.

Thank you for your continued confidence in us.



Brian M. Barish

President

Cambiar Investors LLC

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The performance information depicted above represents the Cambiar Large Cap Value Composite (Institutional). Returns are net of transaction costs and include the reinvestment of all income. Gross returns do not reflect the deduction of management fees. Actual returns will be reduced by management fees. The client is referred to Cambiar's Part II of Form ADV for a full disclosure of the fee schedule. As fees are deducted quarterly, compounding increases the impact of the fees by an amount directly related to the gross account performance. For example, an investment of \$10,000 on 1/1/2009 would have resulted in \$14,027 on a gross of fees basis and \$13,970 on a net of fees basis at 12/31/2009 based upon the actual returns earned in the composite.

The performance information depicted above represents Cambiar's Small Cap Value Composite. Returns are net of transaction costs and include the reinvestment of all income. Gross returns do not reflect the deduction of management fees. Actual returns will be reduced by management fees. The client is referred to Cambiar's Part II of Form ADV for a full disclosure of the fee schedule. As fees are deducted quarterly, compounding increases the impact of the fees by an amount directly related to the gross account performance. For example, an investment of \$10,000 on 01/01/2009 would have grown to \$14,778 on a gross-of-fees basis and \$14,635 on a net-of-fees basis on 12/31/2009 based upon the actual returns earned in the composite.

The performance information depicted above represents Cambiar's International Equity ADR Composite. Returns are net of transaction costs and include the reinvestment of all income. Gross returns do not reflect the deduction of management fees. Actual returns will be reduced by management fees. The client is referred to Cambiar's Part II of Form ADV for a full disclosure of the fee schedule. As fees are deducted quarterly, compounding increases the impact of the fees by an amount directly related to the gross account performance. For example, an investment of \$10,000 on 01/01/2009 would have grown to \$13,855 on a gross-of-fees basis and \$13,722 on a net-of-fees basis on 12/31/2009 based upon the actual returns earned in the composite.

The performance information depicted above represents Cambiar's Global Composite. Returns are net of transaction costs and include the reinvestment of all income. Gross returns do not reflect the deduction of management fees. Actual returns will be reduced by management fees. The client is referred to Cambiar's Part II of Form ADV for a full disclosure of the fee schedule. As fees are deducted quarterly, compounding increases the impact of the fees by an amount directly related to the gross account performance. For example, an investment of \$10,000 on 01/01/2009 would have grown to \$15,107 on a gross-of-fees basis and \$14,992 on a net-of-fees basis on 12/31/2009 based upon the actual returns earned in the composite.

The S&P 500 Index is shown to reflect general market conditions. The S&P 500 is a market capitalization-weighted index of 500 publicly traded stocks. The S&P 500 is a broadly based index which reflect the overall market performance and comparisons may not reflect Cambiar's performance as compared to the performance of other investment advisors. This stock index assumes reinvestment of dividends and capital gains, and assumes no management, custody, transaction or other expenses.