Letter to Investors

Dr. Charles Lieberman, Chief Investment Officer

ADVISORS CAPITAL MANAGEMENT

A quarterly report from Advisors Capital Management, LLC a registered investment advisory firm

First Quarter 2010

ACM Quarterly Letter to Investors: April, 2010

The economy and the equity market continue to recover. The economy is still in the very earliest stages of recovery, yet that process is very visibly underway and a critical threshold has been reached now that job growth has resumed. Rising employment will reinforce the expansion by providing income and confidence to sustain increased spending. This environment is also ideal for the stock market and the continued increase in market values. As this continues to unfold, the cyclically sensitive parts of the equity market should perform the best and that's precisely where we remain focused. In contrast, the bond market, which has retreated significantly in recent weeks, remains highly vulnerable to further improvements in the economy. We have been managing our bond holdings to minimize the damage of rising interest rates on bond values.

All of our portfolios outperformed their benchmarks in the first quarter by a considerable margin, as the investment community slowly recognizes that the economic recovery is becoming well established. This was our fifth consecutive quarter of outperformance. Even now, there is no shortage of doubters that the market recovery will be sustained. There are many serious economic concerns: a high unemployment rate, a huge U.S. budget deficit, high household debt levels, and ongoing mortgage defaults that force banks to write off more loans. (In truth, one could always find worries in any economic recovery following a recession.) Despite these and other concerns, these factors don't negate the powerful forces that are still building and supporting the economic recovery. And there are also many investors who are still burned by the market's meltdown in 2008 and remain on the sidelines now because they just don't believe the recovery is well grounded. Eventually, they will come to the realization they missed the boat and will, sadly, start to buy at considerably higher valuations.

The stock market still enjoys considerable upside potential from current levels, at least in our judgment. Stock indexes would need to rise another 30% to return to its previous peak, yet corporate profits are already close to their previous highs. Thus, stock prices are still not expensive when valued relative to current profits. Corporations are also more liquid than ever, sitting on more than $1 trillion in cash, a record. As corporate treasurers also regain confidence, they will put some of this cash to work by restoring or raising dividends, investing in their businesses, buying back their own shares or buying out strategic competitors. All these possible uses for cash are very positive for stock prices.

Growth Commentary - John Petrides, Portfolio Manager

During the first quarter of 2010, we have maintained our strategy towards an economic recovery, by overweighting consumer discretionary and technology companies. We have also increased our exposure to industrials and financials to capture what we believe is the early innings of a sustainable global economic recovery.

The quarter opened favoring large cap, high quality growth companies, and ended with a strong rally in small and mid cap stocks. More than 70% of the companies in the S&P 500 surpassed analyst earnings expectations, but this time it was through revenue growth, not simply cost cutting. Another trend we saw from companies was "show me the money." As we have discussed in the past, companies hoarded cash to survive in 2008/2009. Now that they have survived, companies are asking, how do we grow? One way to do so is by putting cash to work. During the quarter, companies in our Growth strategy announced over $10.2 billion in share buyback programs, and participated in five M&A deals. This use of cash is happening throughout the market and will help support price-to-earnings multiples as the underlying economy continues to fight its way out of the recession and into a recovery -- we believe this trend of putting cash to work will continue for the rest of 2010.

With inflation under control, housing inventory still falling, unemployment trends stabilizing, credit markets open, a supportive Federal Reserve and confidence being restored, the economy will continue to grow. From a market cap perspective, as all-cap, separate account managers, approximately 60% of the Growth strategy is in small and mid cap stocks, with 40% in large cap. Because of the flexible nature of our approach, we can find value in any segment of the market without having to be tied to a certain style box.

Growth with Income Commentary - Dr. Charles Lieberman, Portfolio Manager

The Growth with Income portfolio continued its strong performance in the first quarter, reflecting our allocations to the cyclically sensitive parts of the market, notably consumer discretionary, industrials, and financials. We expect this solid performance to be sustained over the balance of the year, as we still see the economy as still in the very early stages of recovery.

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MANAGING IN THE RALLY

A look back at ACM's strategic management decisions from the most recent quarter.

Fixed Income: Sold the majority of all investment grade bonds and focused on high yield and convertible bonds. Doing so should help protect clients in a rising interest rate environment. Should inflation move higher, and bond prices move down, we will look to buy in the mid-term time frame. In the meantime, we are operating on the yield curve bar-bell investment strategy.

Convertible Bonds: These securities continue to be very attractive for their bond features with the added potential for equity like capital appreciation. As equity prices continue to rally, these should follow suit.

Master Limited Partnerships: Increased weighting to MLP's for income oriented accounts. MLP's should continue to provide an inflationary hedge. During the quarter, MLP's experienced very healthy returns.

Trust Preferreds: Maintained weighting to trust preferred positions. These investments continue to provide recurring income while their prices have moved back to par. In some cases, the higher yielding preferreds now trade above par.

U.S. Equity: Our fundamental analysis provided outstanding stock selection compliment our top-down approach in favor of a cyclical recovery

Non U.S. Equity: Maintained our commitment in China for our Growth investors. Expanded into India and Emerging Markets in our Global ETF portfolios.

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The unfolding recovery should be very supportive for the cyclically sensitive parts of the market. We enjoyed strong performances from Bed, Bath and Beyond, Royal Caribbean Cruise Lines and The Buckle among consumer discretionary stocks, Boeing, Caterpillar, and Ingersoll-Rand among industrial stocks, and Bank of America, Lincoln National, and Waddell and Reed among financial stocks. As some of these companies led the way down during the financial collapse, they have also led the rally as the economy recovers. Such firms should continue to enjoy demand over the next several quarters.

We continue to avoid most consumer staples, utilities, and telecom companies, as they have more muted growth potential even in a recovering economy. We have also shifted most of our fixed income holdings into convertibles to better participate in the upside we expect over the coming quarters in keeping with the economic expansion. High quality fixed-rate bonds are now expensive and we have largely exited this asset category, except for some short-term maturities. We have effectively minimized our investment grade fixed-income investments, since the value of these holdings will come under downward pressure as interest rates normalize.

Income with Growth Commentary - Dr. Charles Lieberman, Portfolio Manager

The Income with Growth portfolio enjoyed a very strong first quarter, more than doubling the performance of its benchmark. Our focus on income from a diverse allocation of investment sectors proved valuable in providing both income and capital appreciation for clients.

Within the portfolio, some of the companies were affected during the credit crisis, as investors sold in fear that these companies would be unable to roll over their maturing debt. As the credit markets recovered, these companies raised equity and issued new debt to refinance maturities over the next few years. As investors recognized these companies would survive the financial crisis, the stocks recovered sharply, reflecting their improving financial health.

Real estate, pipeline, utility and many mature companies that pay out sizable dividends typically issue significant amounts of debt to enhance shareholder returns. This is particularly common for more stable businesses. The credit crisis of 2007-2008 proved highly disruptive to this long time business approach and the stock prices of these companies dropped, far more so than their otherwise stable businesses. Corporate treasurers turned extremely conservative in that hostile environment and many companies curtailed or suspended their dividends, sometimes when it wasn't even necessary. Such action only fed market fears.

Credit market conditions started to improve quite noticeably early in 2009 and economic measures followed suit, suggesting a return to more normal economic and financial market conditions. As investors recognized the improvement, the inherent value of the companies began to propel the stocks higher. That process is still underway. Most preferred shares have recovered fully, while most master limited partnerships are approaching fair value. Real estate investment trusts have also recovered very strongly, but are still not back to fair value in our judgment.

We have periodically pared some of our holdings of real estate stocks over the course of the past few quarters, but as we sell off some holdings, the remainder has surged sufficiently to maintain our real estate allocation. The fundamentals in the industry appear to be improving, as leasing activity is rising off the bottom. Moreover, this improvement should pick up some speed, as job growth picks up.

Fixed Income Commentary - Dr. Charles Lieberman & John Petrides, Portfolio Managers

Our out-performance reflected the judgment that investment grade bonds offered yields that were too low to be sustainable. So, we limited our exposure to that segment of the market, which helped our performance, since we didn't suffer from the selloff in Treasury or the highest quality bonds. In fact, we had started selling off investment grade bonds in the fourth quarter of last year, as we discussed in our last quarterly report. Instead of conventional investment grade, we focused on high yield bonds when we were comfortable with the quality of the credit and, increasingly, on convertible bonds. Both of these market segments were very important contributors to our strong performance during the quarter.

We remain positioned for rising interest rates for the balance of 2010 with our current bar-bell strategy. However, we remain quite cautious with regard to the market for municipal bonds, because so many states and local governments have been unable to come to terms with their budget imbalances (Greece is not alone in this failure), When owning municipal bonds, we have focused on essential public services and avoided those dependent on tax revenues.

ANNOUNCEMENTS

ACM Acquires Capital Advisors Wealth Management

ACM has acquired Capital Advisors Wealth Management, LLC (Capital Advisors) of Clifton Park, New York. With ACM having provided portfolio management services to Capital Advisors for nearly a decade, this acquisition was seamless and provides both organizations with additional financial services and expertise for their clients. Stan McDannold will head ACM's Clifton Park office.

ACM Approved Manager for the Nation's Largest Independent Broker Dealer

ACM's Income with Growth and Growth with Income strategies are now available to more than 12,000 investment advisors on the LPL Financial platform. LPL Financial is one of the nation's leading diversified financial services companies and the largest independent broker/dealer.

Q1 2010 Composite performance reports and ACM's Form ADV Part II are available upon request.

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