



KIRR, MARBACH & COMPANY, LLC

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"All of our customers with money must some day put it to work into some revenue producing investment. Why not invest it now, when securities are cheap? Some people say that they want to wait for a clearer view of the future. But when the future is again clear the present bargains will have vanished. In fact, does anyone think that today's prices will prevail once full confidence has been restored? Let us face it—these bargains exist only because of terror and distress. And when the future is assured, the dollar will have long since lost its present buying power. It takes courage, of course, to be optimistic about our country's future when nearly everyone is pessimistic. But it is cowardly to assume that the future of the United States is in peril."

—Dean Witter, May 6, 1932

DEAR CLIENTS:

We are pleased to report 1) following a sharp correction in late January-early February, the U.S. equity market continued its strong recovery from the low on March 9, 2009, 2) KM's equity portfolio posted excellent returns in the first quarter of 2010, both on an absolute basis and relative to benchmarks and 3) Dean Witter's quote above (which we highlighted in January 2009, as terror and panic were reaching a crescendo) has proven to be as true today as it was more than 75 years ago.

We don't have a whole lot new to say this quarter, but make the following points:

- As predicted by the index of *leading* indicators turning positive some months ago (see Exhibit H in our January 2010 letter), the U.S. economy continues to recover. The yield curve, a leading indicator, remains steeply positively sloped and employment, a *lagging* indicator, is finally showing some signs of life.
- Capital markets have re-opened and bank lending has *slowly* started to thaw, which should give companies and individuals access to capital needed to invest and spend.
- Corporate earnings continue to impress, coming in generally above analyst expectations. This has been driven by operating efficiencies and, *in some cases*, even revenue growth.
- Inflation is typically caused by an overheating economy combined with rapid growth in money supply. The Federal Reserve has reduced the growth in money supply considerably and stopped growing its balance sheet as the financial/economic crisis has eased. These actions, combined with stubbornly high unemployment, low industrial capacity utilization and anemic bank lending should prevent inflation from being a front-burner concern, for the time being.
- We have likely seen the lows in interest rates, but don't think a *modest* increase in rates (from a historically low level) should be troublesome for the stock market. Recall the plunge in interest rates was driven by the twin panics of a global financial market collapse and economic depression. The economy is clearly not "out of the woods" and there is some distance between current conditions and "normal." Still, as we move forward and the period of fear/terror fades in the rear view mirror, we expect investor demand for bonds to diminish as capital seeks higher returns (i.e. in stocks).
- Corporate credit spreads have contracted rapidly and massively as investors piled into this hot asset class. Given the speed and magnitude of the contraction, we don't think there is much room for spreads to move lower. Combined with our expectation that interest rates are more likely to rise than fall, we think corporate bond investors will earn their coupon interest, but not more.

- Although we have sold or reduced positions in some stocks in our portfolio as they reached price targets, we like what we own and remain fully invested. While the overall market has moved from tremendously undervalued to fairly valued during this recovery, we believe our stocks boast a favorable combination of improving fundamentals and reasonable discounts to intrinsic value.

THE STOCK MARKET

As is clear from the table below, the U.S. equity market 1) continued to confound skeptics in the first quarter of 2010 and 2) has experienced a tremendous recovery from the low of March 9, 2009. An 80% gain in just over a year certainly begs the question of how much more upside can possibly be left. The short answer is we don't know. However, our friends at The Leuthold Group recently published a report that examined bull markets in terms of *bear market losses regained* (they have graciously granted us permission to share their work with you). From this perspective, Leuthold states that *history suggests* this bull could have further to run.

Periods ending March 31, 2010 (Total Returns-Cumulative-Bloomberg)

	Russell 3000 Index	S&P 500 Index
3-months	5.9%	5.4%
One-year	52.4%	49.8%
Five-years	12.5%	10.0%
Ten-Years	-0.7%	-6.4%
Since 3/9/09	80.7%	76.8%

SUMMARY

Kirr, Marbach & Company, LLC will celebrate its 35th Anniversary on May 1, 2010. Over these decades we have experienced numerous bull and bear markets, economic booms and busts and seen many investment fads come and go. Through it all, our guiding principle has been that we do only one thing—manage wealth—and we manage the wealth of our clients as if it were our own. We know that it is *only* because of the trust and confidence our clients place in us that we are able to celebrate this milestone. We are grateful and truly humbled.

KM'S FORM ADV-PART II

Securities and Exchange Commission Form ADV—Parts I and II describe an investment adviser's business and practices. Advisers registered with the Commission are required to electronically file an annual updating amendment to Part I and offer to provide to clients a copy of its annual updating amendment to Part II. KM filed its annual updating amendment to Part I on March 8, 2010. As a matter of practice for the past several years, we have provided each client account with a copy of our annual amended Form ADV—Part II and do so again this year.

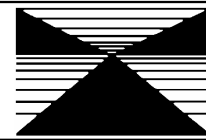
REGULATORY UPDATE

Kirr, Marbach & Company, LLC (KM) is registered with the U.S. Securities and Exchange Commission (SEC). As a SEC-registered investment adviser, KM is subject to periodic examination by the SEC, which can occur at any time. In the aftermath of the Bernie Madoff scandal, the SEC has determined that it's a good idea for their examiners to independently verify records provided by registrants (like us). This being the case, it is *possible* during our next examination that the examiners will contact clients to confirm account balances, holdings or other information. We do not know if this will become a standard part of routine examinations, but wanted to alert clients ahead of time.

Related to the above, the SEC recently adopted an amendment to Advisers Act Rule 206(4)-2 ("Custody Rule"). This rule requires KM to 1) make "due inquiry" of Custodians to confirm periodic statements have been sent directly to clients and 2) on statements KM provides to clients, "urge" clients to compare the statement from KM with the statement from the Custodian.

Regards,

Kirr, Marbach & Company, LLC



Prepared By: Eric Bjorgen

BULL MARKET MILESTONES

....How The Current Bull Stacks Up To Past Cycles

We are fast closing in on the 13-month mark of the cyclical bull market which began on March 9, 2009. Many of the indicators and cycle comparators we track suggest that there is a strong possibility of the bull run continuing, and considering the Major Trend Index still looks solid, it appears probable that new highs (for this cycle) will continue to be achieved in the weeks and months ahead. At the time of this writing (April 5th), the S&P 500 has achieved a new cyclical high.

But how much is left in terms of additional upside for stocks? This section will examine characteristics of the current bull market, and employ some historical analysis to provide context and perspective. **As pointed out in previous months, we do believe that the bull market is now in its mature phase, and the majority of gains have already been realized.** But what follows is a list of evidence that supports the view that that there is likely additional upside yet to be achieved.

Recovery Approaching Normalcy, But Not There Yet...

S&P 500 Bull Markets			(1926 to Present)			
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Stock Market Peaks & Troughs			Bear Market Statistics			
Date Of Market Trough	Market Trough Level	Market Peak Level	Date Of Market Peak	Trough To Peak Performance	Duration Of Bull Market	
*****	*****	*****	*****	*****	*****	
Jul-8-1932	4.41	12.20	1	Jul-18-1933	177%	24.5 Months
Mar-14-1935	8.06	18.68	2	Mar-10-1937	132%	24 Months
Mar-31-1938	8.50	13.79	3	Nov-9-1938	62%	8.5 Months
Apr-28-1942	7.47	19.25	4	May-29-1946	158%	49 Months
Jun-13-1949	13.55	49.75	5	Aug-2-1956	267%	85.5 Months
Oct-22-1957	38.98	72.64	6	Dec-12-1961	86%	50.5 Months
Jun-26-1962	52.32	94.06	7	Feb-9-1966	80%	43.5 Months
Oct-7-1966	73.20	108.37	8	Nov-29-1968	48%	25 Months
May-26-1970	69.29	120.24	9	Jan-11-1973	74%	32.5 Months
Oct-3-1974	62.28	107.83	10	Sep-21-1976	73%	23.5 Months
Mar-6-1978	86.90	140.52	11	Nov-28-1980	62%	32 Months
Aug-12-1982	102.42	336.77	12	Aug-25-1987	229%	60.5 Months
Dec-4-1987	223.92	368.95	13	Jul-16-1990	65%	30.5 Months
Oct-11-1990	295.46	1186.75	14	Jul-17-1998	302%	93 Months
Aug-31-1998	957.28	1527.46	15	Mar-24-2000	60%	19 Months
Oct-9-2002	776.76	1565.15	16	Oct-9-2007	101%	60 Months
			Average	123%	41 Months	
			Median	83%	32 Months	
Mar-9-2009	676.53	???	17	???	76% *	
* as of 4/5/10 high						

- So far, the 76% gain on the S&P 500 (through the 4/5/10 close) is below the 83% median gain; and far behind the 123% average gain for all bull markets.

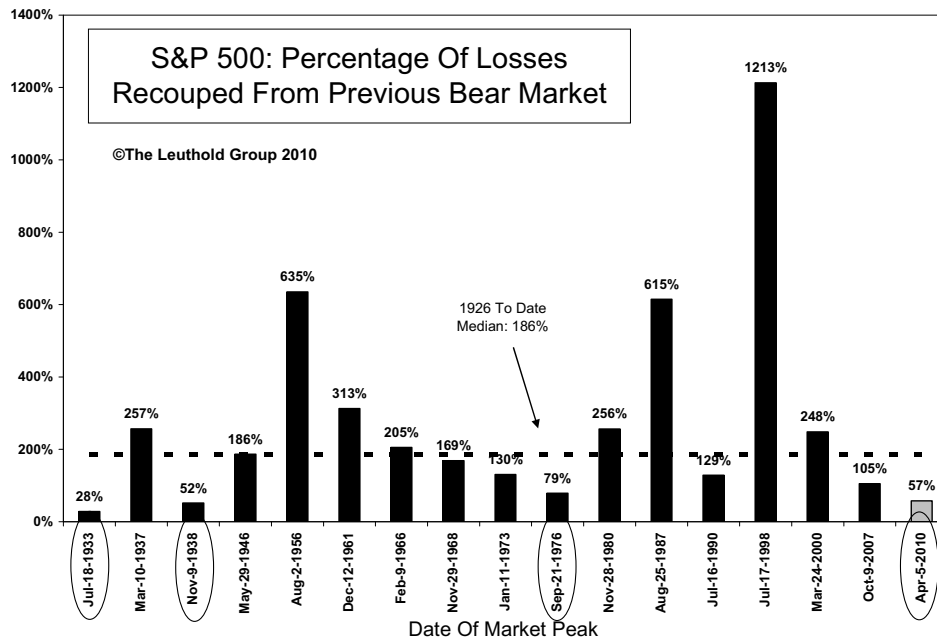
....If the current bull market were to peak with an 83% gain (implied by the long term me-dian), it would put the S&P 500 at the 1240 level, which represents about 4.4% upside from current levels.

- Measured in terms of bull market duration, the 13 month period spanning from the March 9, 2009 low to the current high means the bull market is still pretty young by historical standards. **If the bull market were to end right now, it would become the second shortest bull market in the 84 year history of the S&P 500.** While certainly not impossible, this doesn't seem probable.

BULL MARKET MILESTONES...Percentage Retracement Off The Lows

Another way to put the current bull market in perspective is to look at the percentage of bear market losses recaptured or retraced by the bull market that followed. For example, a new bull market that rallied to match the previous high would have recaptured or retraced 100% of the bear market losses. Anything more than 100% means that the S&P 500 rallied above its prior peak, and anything less than 100% means the bull market topped out below the peak level of the previous cycle.

The Long Road Back



- As of the April 5th high, only 57% of the bear market loss had been recouped in the latest bull market cycle. Historically speaking, this recapture rate is pretty anemic considering 13 of the last 16 bull markets have gone on to achieve highs that were greater than the previous market peak (leading to readings > 100%).

.....However, we don't expect the recapture percentage to go above 100% in this bull market cycle, since that would imply a peak above 1550 for the S&P 500....very unlikely. We have circled the current and previous bull market peaks where the recapture rate was less than 100%. Not coincidentally, these four instances followed four of the five worst bear market declines in S&P 500 history.

- The September 21st, 1976 bull market peak topped out at a level that recaptured 79% of the 1973-1974 bear market losses. This might serve as a good template for the current stock market recovery, since the technical dynamics of the 1973-1974 bear market and subsequent recovery are quite similar to today's. **A 79% recapture rate today implies a peak level of 1385 for the S&P 500, an upside of about 16%-17% from today's level.** This 1970's era cycle is explored in greater detail on the next page.

BULL MARKET MILESTONES...Recoveries Following The Nasty Bear Markets

The chart on the previous page suggests that bull market recoveries following significant bear market declines have unique performance characteristics worth examining in greater detail. The table below is a subset of the table on the first page of this section. Here, we just focus on previous bull market recoveries that followed bear market declines of 45% or more.

Bull Market Performance Following Bear Markets Down 45% Or More

Stock Market Peaks & Troughs			Bear Market Statistics		
Date Of Market Trough	Market Trough Level	Market Peak Level	Date Of Market Peak	Trough To Peak Performance	Duration Of Bull Market
Jul-8-1932	4.41	12.20	1	Jul-18-1933 177%	24.5 Months
Mar-31-1938	8.50	13.79	3	Nov-9-1938 62%	8.5 Months
Apr-28-1942	7.47	19.25	4	May-29-1946 158%	49 Months
Oct-3-1974	62.28	107.83	10	Sep-21-1976 73%	23.5 Months
Oct-9-2002	776.76	1565.15	16	Oct-9-2007 101%	60 Months
			Average 114% 33 Months		
			Median 101% 25 Months		
Mar-9-2009	676.53	???	17	???	76% * 13 Months *

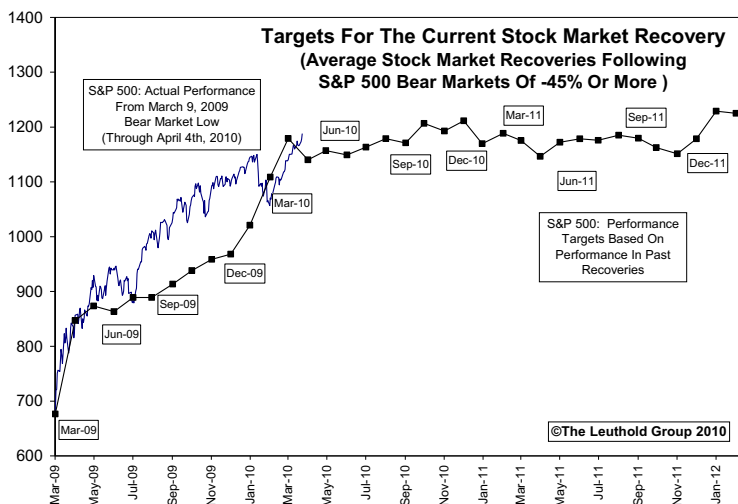
* as of 4/5/10 high

- The 76% gain on the S&P 500 (through the April 5th high) is below the 101% median gain; and below the 114% average gain for the bull markets in this subset.

....If the current bull market were to peak with a 101% gain implied by the median, it would put the S&P 500 at the 1360 level, which represents about 15% upside from current levels.

In the history of the S&P 500, there are only five market cycles we can study that fit in this subset. Obviously we don't have the "law of large numbers" necessary to make robust statistical inference. But the data we have shows that recoveries following the more traumatic bear markets can be followed by dramatic recoveries.

The chart below traces out what the average recovery from the bear market low has been for bear markets that were down 45% or more. Also plotted is current bull market performance as measured from the March 9th, 2009 bear market low. Interestingly, the dramatic bounce off the March-2009 low has been pretty much the only similarity that we have seen compared to the "average" bull market recovery trajectory...at least until recently where performance has converged. Of course no bull market is "average" or even "typical", but this analysis helps determine if performance strays too far from the historical norm.



The Leuthold Group—April 2010

Of Special Interest

While perhaps less useful for determining terminal targets for the current bull market, the long term averages point to additional upside, indicating a topping out just shy of the 1230 level for the S&P 500. However, we consider this to be a very conservative peak level for the current bull market.

Steve Leuthold's projection for the S&P 500 calls for a much higher peak in the vicinity of the 1350 range, perhaps coming sometime in the second half of the year.

- Note on the chart how bull market recoveries "slow down" in the second and third years after the strong initial surge.

BULL MARKET MILESTONES...Potential Impediments; And A 35 Year-Old Case Study For Today

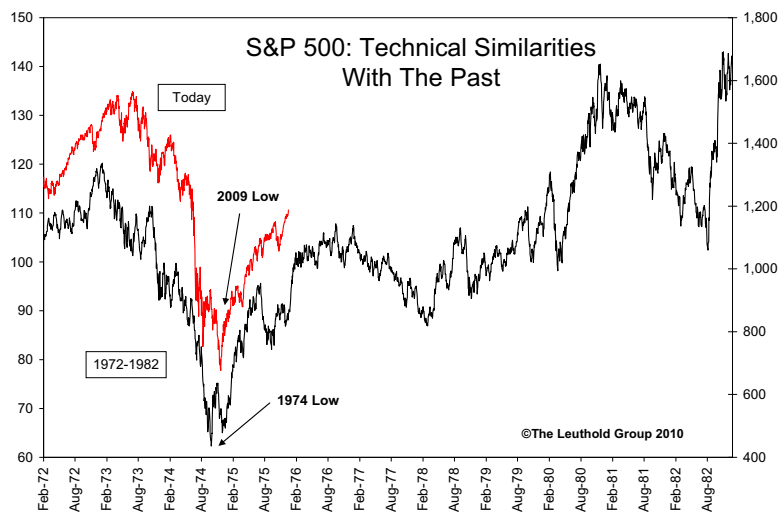
The old saying “*discretion is the better part of valor*” is just as true in the financial markets as on the battlefield. So it is with regard for discretion that we ask: *What could go wrong with the current stock market recovery that would forestall future gains? Briefly, they include:*

- Fade in earnings/sales momentum
- Inflation rate rises above 7%-8%
- Significant and protracted dollar weakness
- Wave of foreign sovereign debt defaults
- Unemployment rate begins to rise again
- Housing markets see another downturn
- Yield spreads widen substantially
- More crisis events in financial sector

It would likely take a combination of these factors to cause another bear market, although rapidly rising inflation could have a profound ripple effect— serving to ignite some of the other above-listed bull killers and bring them into play. However, as mentioned on a previous page, an intriguing technical comparison can be made between the market action in the 1970s to today’s. **Sure, the problems and uncertainties may differ. But technically speaking, the stock market reactions in both periods have been remarkably similar so far.**

1973-1974 Bear Market & Subsequent Recovery: Cyclical Template For Today?

While we are not huge fans of overlays between two market eras for purposes of predicting future returns, the chart below is quite interesting since it shows a remarkable similarity between recent market action and that of the first half of the 1970s. This exercise can sometimes be likened to looking at clouds— seeing what you want to see— but in this case, the technical patterns are undeniably similar in the way the cycles are playing out so far: But the key phrase here is *so far*.



At the time, the 1973-1974 bear market was the worst decline since the Depression-era. The same can also be said of the most recent bear market. On one hand, these eras were accompanied by a different laundry list of problems. But investor reaction has been similar, leading to comparable chart patterns, even in cyclical nuance. Both eras were marked by a complete lack of retail support for equities, instead **relying on professional buyers to drive the rally.**

Even the recent 8% correction aligns with a 14% bull market correction experienced in the third quarter of 1975, after the S&P 500 rebounded sharply off the October-1974 low. **Will the current bull market continue to play out the way it did in the second half of the 1970’s decade, just because it has so far? Doubtful. But if it does, the 79% recapture rate experienced during that bull market (shown on a chart earlier in this section), infers a 1385 peak level for the S&P 500 in this cycle, which would be just fine for most bulls.**