Welcome to 2007! We hope you had a great holiday season and wish you the happiest of new years.

During the fourth quarter, the S&P 500 returned 6.70%. Basic Materials and Energy sectors were the top performers returning 10.74% and 10.73% while Health Care and Consumer Staples were the worst performing sectors, returning just 0.99% and 2.94% respectively. Small and mid sized companies took over the lead during the quarter with the S&P MidCap 400 returning 6.99% and the S&P SmallCap 600 returning 7.84% while the value oriented S&P 500/ Citigroup Value Index bested its Growth Index counterpart 7.73% to 5.65%. For the full year the S&P 500 returned 15.80%, outperforming the mid cap index by 5.47% and the small cap index by just 0.67%. Over this time frame, value stocks dominated growth stocks as the S&P 500/ Citigroup Value Index returned 20.80% compared to the Growth Index return of just 11.01%. This trend has persisted the last seven years.

The economic picture remains solid with the latest government report citing GDP growth of 2.0% in the third quarter, slightly less than preliminary estimates and less than the second quarter growth of 2.6% but a reasonable growth rate nonetheless. The labor market continues to add jobs with preliminary estimates of 79 thousand new jobs in October and 132 thousand new jobs in November, bringing the unemployment rate down to 4.5% at the end of November compared to 4.7% at the end of August. The Federal Reserve, at both meetings during the last quarter (October 25 and December 12), held the Fed Funds Rate steady at 5.25%.

There was plenty of news during the last quarter and throughout the year that, for better or worse, likely had an impact on the markets: the continued war in Iraq; Democratic political domination during the November elections; the peak and subsequent fall in energy prices; and the virtual collapse of the housing market in the United States. While even the most intelligent pundits could debate the current and ongoing effects of these political, economic and financial events (and likely disagree), we still hold that the most successful investment strategy is to look for companies with high returns that are selling for prices below our estimates of their intrinsic value. We were successful doing this on a number of occasions this year including the purchase of Apple Computer, Garmin Ltd., NS Group, Celgene, and more recently Berkshire Hathaway and Google. Our recent move out of energy reflects our position that earnings have peaked for this cyclical group.

Our investment thoughts and the research we've been looking at suggest that 2007 will be another good year for stocks. Current prices compared to projected earnings are still at levels that suggest the market as a whole is somewhat undervalued and a number of catalysts seem to be in position to help support this thesis: lower energy prices and a modest beginning to the Northeast winter heating season; record levels of cash on corporate balance sheets indicating the opportunity for corporate spending; lots of recent mergers and acquisitions activity; and prospective rate cuts by the Federal Reserve. Lower inflationary expectations should result in a higher price earnings multiple for stocks more than offsetting any potential weakness in earnings. The headwinds include slowing earnings growth, further slowdown in the housing market, slower overall economic growth and a potential shrinking in corporate profitability. Overall though, we are cautiously optimistic and will continue as always to look for strong companies selling at good prices.

Starting this quarter, you will find an additional report which shows how your account performance is calculated and the components of that calculation. Also, for those of you with taxable accounts managed by Hutchens, you will find an extra report included with these quarterly materials outlining realized gains and losses for 2006. Please let us know if there is any additional information from us that you require to help assist you in the completion of your tax returns.

Thanks again for your continued trust and we wish you a prosperous 2007.