

Dear Client,

The first quarter of 2008 will be remembered as one of the sharpest declines for investors. The S&P 500 fell nearly 10% and other broad based averages were off significantly. The housing and related sub prime crisis came to a head with the Fed led bail out of Bear Stearns. The market swooned and made a double bottom: first in January, then a successful retest in March.

Investor pessimism predominated psychology on Wall Street. Indeed the economic outlook has not improved. Manufacturing, housing, employment, and consumer spending are pointing downward. As a discounting mechanism the market may already be signaling a resumption of the bull run which began in 2003. The stock market is historically cheap in relation to fixed income yields.

We have written repeatedly about the global growth theme that has dominated our thinking and the structure of your portfolio. The theme continues. Bull markets in agriculture and energy have gained momentum. Cash rich technology has been a rollercoaster as some of our favorite names have seen large corrections only to recover more recently. The finance sector appears to have bottomed and we have recommitted capital in some old favorites. As always, we first focus on best of breed companies.

The Fed and the Treasury are being unusually creative and while we might expect to hear of further write downs and disclosure of bad loans amongst financial institutions most of that has already been discounted by the market.

So far higher oil prices, industrial commodities, and grains have not led to a surge in core consumer inflation. That measure holding around 2.5% is above the Fed's long term target rate but below the heady peaks seen in other periods such as the late 70's early 80's. Therefore the Fed has some latitude to continue to bring rates lower. Targeted reforms to FHA and other housing related relief would be a big help. We expect some action in this area as was recently proposed by Congress.

To summarize, the worst is behind us and the recent optimism by investors is warranted. As always please feel free to call or email with any questions. If you would like to meet to discuss strategy please let me know.

Sincerely,

William D Hutchens, Jr.  
President