

Second Quarter 2008 Client Letter

The second quarter of 2008 will be remembered for the decline in the month of June. The market swooned due to soaring oil prices and concern that inflation will cause the Fed to raise rates. Overall the S&P 500 declined 2.7% for the quarter. Your results are substantially better. Please see the attached performance reports. We are proud of our relative performance in the last year.

Economic growth continues to bounce around 1% real for the first two quarters. Evidence is mounting; however, that higher oil and commodity prices are causing demand destruction here in the US and abroad. The developed and emerging economies are slowing. The global growth story we have written about in previous letters continues but at a slower pace. The elephant in the room remains emerging capitalism in China, India, Eastern Europe, and Brazil. Higher energy, metals and food costs are causing some concern there but the law of supply and demand still rules and we expect that a reasonable balance will be found soon. Hopefully we have seen the highs in oil prices for awhile.

We remain focused on Energy, Infrastructure, Technology, and Agriculture as bull market themes. The thesis is still valid. Diversification reduces risk and we will continue to hold excellent companies in other sectors where we can find value. Growth is becoming harder to come by. The housing sector continues to decline. The increase in gasoline prices is effecting consumer spending patterns. Inflation expectations are rising and this has not been good for most stocks. That is why the market is off 20% from its highs of last October. We have done a lot better by staying in companies that are benefiting from these trends.

Fortunately we take a longer term view and can take advantage of the volatility to make money. Our long term relative results continue to improve. In these difficult times professional management adds a lot of value. The market will rebound. It always does. You are well positioned to profit as a result.

If you would like to discuss your portfolio in detail please give me a call or drop me an email at bhutchens@hutchco.net .