

Third Quarter 2008 Client Letter

I have been in the investment business since 1981; having graduated from Hamilton College in 1980. I started with State Street Bank in Boston. Fresh in memory at the time was the Arab Oil embargo and the bear market of 73, 74. The ensuing inflation and soaring interest rates of the Volker era welcomed me to the business, inflation at 15%. Next came the crash of 87, Dow down almost 25% in one day... Then we had the S&L crisis and real estate bust of 90, 91 when thousands of banks went out of business. Then we had the dot.com bubble and burst of 2000, 2001. Most stocks in telecommunications technology plunged over 90%. Remember Sept. 11th 2001? Now we have the mortgage/banking crisis and the market is off 30% from its highs. Despite all of these crises the S&P 500 is up 10 fold from Jan 1980 to Sept 2008, from 114.16 to 1164.74. Amazing isn't it? What a country.

What a difference a quarter makes. The global growth theme that I have written about and which our portfolios have benefited from in the last two years has come to an abrupt halt for two reasons. First, a credit crisis which began in the US has spread to Europe and will very likely affect the burgeoning emerging economy in China as well. Russian aggression has cooled appetite for risk there and the slowdown in commodities shipments will affect Brazil. Emerging markets while still growing have slowed markedly. Second, the demand destruction from the spike in oil and other industrial commodities such as copper and steel has taken its toll. Oil spiked close to \$150 a barrel and consumers balked. Our economy feels as though it has ground to a standstill. The credit markets have essentially shut down for even the highest rated companies. As I write, Congress is debating a \$700 billion package to rescue the banking system. This is a great deal for America. Our economy needs it badly. The aforementioned slowdowns will be temporary. We will get through this like all the others. It is critical to focus on fundamentals not politics.

Drastic times call for drastic measures but not panic. The themes we have developed over the last couple of years need freshening in light of the global slowdown. Health Care has emerged as a strong sector. We have made several new investments there in the last few weeks. Biotechnology, medical device, hospital supply, and drug companies have increasing sales and earnings that are immune to economic exposure. Global infrastructure and agriculture commodity related stocks are underweight. Energy is now underweight and our focus is on alternative energy technology companies like solar. Likewise other technology companies are being emphasized. Productivity enhancements are always in demand and our tech stocks are uniquely positioned for rapid growth. A new theme is controversial: the rebounding US consumer. It is amazing how resilient the consumer is. We are a nation of optimists and believers. The market is already discounting the truth in retail sales, home building, and other durables such as autos where we see an upgrade cycle coming. Financial stocks have been underweight for a long time. Now is the time to buy the stocks which will emerge from the crisis as winners. So our new themes are science and technology, and emerging consumer and finance. As we build the portfolio in the coming weeks and months expect to see approximately 25% in each category.

I know many of you are very nervous. Hang in there. The market is making a bottom and you will benefit greatly in the recovery and growth in 2009 and beyond. I expect to see a very positive fourth quarter and 2009 as we have already discounted much of the worst case scenarios.

As required by the SEC we offer our form ADV every year. If you would like a copy please let me know. As always feel free to call or email bhutchens@hutchco.net to discuss your needs and concerns in detail.