



August 8, 2011

To Our Friends:

The S&P 500 Index declined over 6% today, bringing the decline thus far in August to over 13%. In view of this rapid decline, we wanted to give you a brief update on our thoughts on the markets.

As we mentioned in our note last week, our view is the markets are reacting to concern over the direction of the global economy, and in particular the outlook for the more advanced economies of the U.S. and Europe. Although Standard and Poor's decision to lower the credit rating of the U.S. (one notch from AAA to AA+) is receiving a great deal of media coverage, the bond market largely ignored this event as U.S. Treasury bonds rallied sharply despite the perceived drop in credit quality. The real issue at hand is the ability of world economies to grow in the face of the headwinds from many advanced countries dealing with large public debt burdens.

What are we planning to do now? In the last few weeks, we had been adding to cash positions with an eye toward reinvesting when market sentiment improved. Valuations are compelling (both for large domestic corporations as well as in emerging markets), as the indiscriminate selling has resulted in many companies trading at lower price-earnings ratios than at the depths of the 2008-2009 financial crisis. Investor fear is approaching extreme levels. One of the most common measures of fear - the VIX Index, closed today at levels consistent with previous stock market bottoms. The combination of historically low valuations and poor investor sentiment should set the stage for very attractive long-term investment opportunities. We have identified several investments which we anticipate beginning to accumulate in the near-term.

The recent market reaction is a reminder that the road to attractive long-term investment returns is not a straight path. Investments in stocks have historically produced attractive investment returns over the long-term - even after accounting for the intermittent corrections and/or bear markets which occur over time.

Market fear creates investment opportunity.

Sincerely,

A handwritten signature in black ink, appearing to read "Alan Cole". The signature is fluid and cursive, with the first and last names clearly distinguishable.

Alan Cole  
President/Portfolio Manager