



June 30, 2008

To Our Friends:

In view of the sharp drop in the equity markets in June, we wanted to give you our thoughts on the markets. Most broad indices are down 8 to 10% for the month, with many indices suffering double-digit losses year-to-date. From the market high in October, the S&P 500 Index is down about 20%, a decline that many define as a “Bear” market.

In previous quarterly letters, we discussed the major contributors to the market volatility experienced since late last summer – including the bursting of the housing bubble (wealth destruction), distress in the credit markets (credit tightening), rapidly rising commodity costs (inflation), and the potential peaking of corporate profit margins (slowing earnings growth).

The confluence of all these factors resulted in a deteriorating economy, pushing out hopes for a business recovery until 2009 at the earliest. The stock market reflected these concerns, particularly as the month (and quarter) comes to a close. As a side note, we believe a contributor to the recent acceleration of selling pressure is due to many hedge funds deleveraging and/or raising cash in order to meet investor redemptions.

Core equity portfolios have fared better than the broader market primarily due to our exposure to energy and related companies, as well as limiting our exposure to areas most vulnerable to the deterioration in credit and the economy – namely financials (banks) and consumer cyclical stocks (retailers). Cash levels in portfolios have been on the rise since last October – a natural by-product of our selling discipline - as we sold several stocks that successfully appreciated to our price objectives, as well as exiting some positions where we believe the future risk outweighs maintaining an investment position.

Of course, we have not been completely immune to stocks declining below our original purchase price, particularly if we originally invested in the position more recently. In these circumstances, we continue to evaluate whether the decline is due to a temporary disruption within the company or industry or whether it is a longer-term impairment. Depending on the outcome of our analysis, in some circumstances we added to our investment, in others we exited the position as we concluded the future risk of disappointment outweighs maintaining a position.

Importantly, we are beginning to see valuations improve for a number of companies that we presently do not have a position, but have been monitoring for several quarters. We anticipate putting some of our cash to use in these companies in the coming weeks or months, should they fully meet our parameters. For example, we have been monitoring an extremely well run retailer for several quarters. Although the valuation appears attractive based on the current consensus for

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earnings, our expectations are that weakness in consumer spending has not yet adequately been reflected in the earnings forecast. As a result, we view the potential for near-term disappointment too great to justify investment today.

When will sentiment, and the stock market, begin to improve? That is always the most difficult question to answer, as catalysts are difficult to see when markets/economies are in decline. In March 2003, very few believed that the start of the Iraq War would coincide with the beginning of a substantial bull rally. Today, in a sense, the economy seems far more precarious, as financial markets across the globe come to grips with slower growth and rising inflationary pressures. Our instinct suggests the markets will improve when participants believe the rate of growth in energy and food prices will moderate due to sufficient demand destruction from the recent high levels. We are hopeful that this will become evident over the coming months, but we are prepared if the time frame becomes more extended.

As you have undoubtedly heard us say in the past, investment in stocks historically has produced attractive long-term returns - even when including some very difficult short and intermediate term obstacles. Our role remains to protect assets in these difficult periods and be positioned to take advantage of the opportunities when the environment improves. We will expand upon our thoughts in our quarterly review in July. In the interim, we welcome your questions or comments.

Sincerely,



Joel H. Jastromb  
Chairman/Chief Investment Officer



Alan Cole  
President