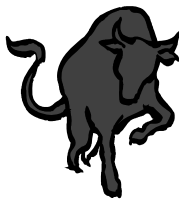




Index	Quarter Return
DJIA	-12.5
S & P 500	-11.0
NASDAQ	-3.1
Russell 2000	-15.0
MSCI EAFE	-14.6
Barclay's Aggregate Bond	0.1
Consumer Price Index	1.2



### First Quarter Investment Commentary

Concerns about the damage to the financial system, mounting job losses, and sharp declines in corporate earnings sent stocks to new lows by the second week in March. Stocks rallied strongly in March, but the first quarter still ended with a double-digit loss for equities on a worldwide basis. The S&P 500 Index was down 11%, while the developed foreign country markets continued to lag U.S. markets and were down 12%. The emerging market indexes had a great March and ended the quarter slightly in the black, the only index to do so. Bonds broke even for the quarter with High-Yield (Junk) bonds showing the best asset class gain with 5.3% for the quarter. REITS (which we have essentially been out of) were sharply lower as investors reacted negatively to deteriorating fundamentals and fears about debt rollovers.

### Recap of the Current Economic Situation

The list of issues affecting today's investment landscape is dizzying; at the top is the dismal state of the global economy. The fundamental problem is that over the past several economic cycles, U.S. households and financial services businesses took on increasing amounts of debt in order to fund consumption and investment. This trend was self-reinforcing as purchases with borrowed money drove up asset prices (such as homes) and profits, which supported even more borrowing. Ultimately this upward spiral was unsustainable, and its unwinding has created an adverse feedback loop of falling asset prices and lower spending and profits. As the economy deteriorates, contributing factors (such as rising unemployment, mortgage defaults, loan write-offs, reducing lending, and overall fear) all fuel one another.

We agree that attempts by the government to stop a debt-inflation spiral from taking hold is very important, but there remains a lot of uncertainty as to how the government's efforts will play out. Generally speaking, we think that the policies and programs recently announced are likely to help move the economy towards recovery, but they may not alone solve the serious

problems we are facing and we expect more government action in the months ahead. In our opinion, no matter what policies are introduced, the impact of consumer and financial system deleveraging will almost certainly be a significant drag on economic growth over the next several years, as saving and paying down debt replaces borrowing and spending.

### **Is there life ahead?**

The greatest credit shock since the 1930s has reverberated loudly throughout the world and has scared individual investors to a degree not seen, but maybe once (1974), in the last 80 years. Where does it all leave us – all of us who are trying to provide a good life today as well as a secure life in the future? The first question is: Do we face an economic Armageddon? We have seen many such predictions and have had numerous conversations with concerned clients. We have, however, never believed in the dooms-day scenario. Those that believe that do not take into account the creativity of the human mind – the ability to figure out a way to successfully navigate through an economic maze that we have never seen before. To be blunt, we believe the same type of human ingenuity that got us into this mess will ultimately get us out of it.

If Armageddon doesn't occur, as we have emphasized many times the economic body will take a while to recover, just as the human body takes a while to recover from a major shock. The economic recovery and the next 10 years of worldwide growth will be closer to the long-term growth rate of 2% rather than the 5% growth experienced over the past 10 years. We understand this and are putting great effort into investment decisions...we know that we have been very successful investment-wise over the past 15 years and that we will have to invest differently over the next 15 years to deal with the much slower growth economic environment. We do, however, believe that there will be investment opportunities for investment returns far in excess of inflation.

### **Investment Strategy**

As you know, we took much of the risk component out of your portfolio beginning in the fourth quarter, 2007. We did this by selling the more risky assets and by raising substantial amounts of cash. Going forward, our investment strategy has always been to increase the risk profile of your portfolio IF, WHEN, and AS we see an improved economic/market environment.

We have seen some signs of economic healing – certainly not increases in activity but a flattening of the decline which is the first step in the economic healing process. There are signs that credit is beginning to flow again and opportunistic investors are bringing billions of dollars to distressed real estate and securities markets. We do know that, while impossible to judge the extent, much of the bad news is already “in the markets,” and we do know there are trillions of dollars in money market accounts, and we just don't believe they will remain there earning .2% forever. Neither we nor you nor anyone else can time the markets with precision, and that is why we are employing a “dollar cost averaging,” *gradually* increasing the risk level of your portfolios by investing in more potentially rewarding investments. We know that any rally might be a bear market rally, and it is certainly not impossible for the markets to retest the March 9<sup>th</sup> lows. We will, however, focus on favorable risk/reward opportunities while continuing to protect you from steep declines in your investments.