



## Year End 2008 Performance Review

It was a lousy year. In fact, it was the third worst annual loss for US equity markets ever and the worst year since the great depression. The S&P 500 broad market index was down 38%. It could have been worse; the market was down nearly 50% in October when it hit its low before a mild year-end recovery. It was no time to follow the leaders that everyone loved in 2007. A portfolio of REITS, oil and commodities stocks with some international exposure in emerging markets lost you 60% or more for the year.

The market punished value and growth managers with equal ferocity. Technology and telecom, the bread and butter of growth stocks, got crushed as they always seem to do in the first stage of a bear market. Surprisingly, high book value and better yielding stocks, the favorite fair of value managers, were also trashed, as investors weren't just concerned that growth would moderate. They were assuming the book value was bogus and the dividend was a promise that couldn't be kept. Or, maybe the truth is that the market just sold everything it could get a bid on and, when in panic, nobody thinks about anything. Whatever the reason, almost everything went down and investment styles didn't matter.

Bonds were supposed to protect you from the horrors of the stock market. However, while interest rates went down, which should have caused bond prices to go up; the prices of a wide variety of agency, corporate and municipal bonds sank as investors fled anything that wasn't US government guaranteed. That government guarantee doesn't come cheap. You get paid nearly nothing for short-term bills and you get paid less than 2.5% to give your money to the US Treasury for ten years. You'll get a better yield than that on the S&P 500 even if the stocks don't go up a dime and not one of them raises their dividend for the next ten years!

Did we deserve this? No! Did we go into last year with stock prices so inflated that a fall was inevitable? No. The stock market wasn't the bubble this time. This time it was consumer loans and their derivatives that caused the crash. The epicenter was the overvalued real estate market and the associated loans that got sliced and diced until nobody knew what they were.

The year started off a little weak, but our economy was still growing and international growth was strong. There was that pesky problem with sub-prime mortgages. Still, we were told that the big banks and brokers were good as gold. "I expect there will be some failures...I don't anticipate any serious problems of that sort among large, internationally active banks that make up a very substantial part of our banking system." Ben Bernanke, Federal Reserve Chairman February 28, 2008

Of course by late summer, it was clear that the big banks WERE the problem. The nation's head bankers didn't know what was on their balance sheets, investors didn't know and it appeared the banks themselves didn't know what they owned. That sparked a crisis of confidence worldwide and a margin call that tested all the assumptions about risk and liquidity. As Warren Buffett said; "You don't know who's not wearing a bathing suit until the tide goes out." Well, it turns out nearly everybody was skinny dipping!

Down went Bear Stearns, then Lehman, and soon bad debt was putting holes in everything from money markets to off-shore "Special Investment Vehicles" that big banks had set up to get around already loosened equity requirements.

You know the rest of the story. By October there were two kinds of investors: terrified and stupid. Welcome to the 2008 financial panic. It is an unnecessary result of mismanagement and greed on the part of the world's most prominent financial institutions and lack of control by regulators, but it's not the end of the world.

It's just the result of the latest ill begotten experiment in financial engineering that the hedge funds, brokers and bankers tried to foist upon gullible investors. No worse than the tech bubble, the emerging market bubble before that, the false promise of portfolio insurance before that, the nifty fifty bubble of the seventies before that or the conglomerate bubble of the sixties.

Every one of these bubbles saw the reincarnation of Mario Ponzi (the turn of the century scam artist who gave his name to the Ponzi scheme at the turn of the last century). There is always somebody who takes advantage of the gullible just as Bernie Madoff is accused of doing today but the victims aren't blameless. If you have a million dollars or more to invest you should know that there never has been, and never will be a legal way to earn high returns without risk. Please...if I told you that I had found a way to make double digit returns every year would you: A) Believe me B) Ask that I see a psychiatrist C) Just shoot me!

So here we are, in what we assume is the latter stage of a financial panic that has caused a recession. What should we do? Well, first of all, we shouldn't panic. Why bother, everybody else already has. For the first time in modern history, cash balances equal the entire value of the US equities. What's left to sell?

Secondly, we should try to rationally assess the situation, which I would summarize by saying that either the market has correctly anticipated that there will be the mother of all recessions, which we might as well call a depression; or, the market has overreacted (again) and the economy will be getting better before long. Since we are clearly in a panic, the chances are pretty good that the market is acting on fear rather than rational expectations, making this a great time to own stocks for anyone with more than a short-term investment horizon. Unfortunately, investors look like an endangered species and traders are in control of the stock market.

Why else would "investors" sell stocks when valuations are near record lows and the prospects for long term returns were the highest? Clearly the market appears to now be controlled by traders who are only interested in the next day's close and forced sellers who must liquidate at any price to meet margin calls and redemptions. Technology has made it possible for 401(k)s to be cashed in with a key stroke and a few hedge funds to drive the market down 500 points or more in a matter of minutes. Does that have

anything to do with the stock market's primary functions of being an allocator of capital to business and access to the benefits of corporate ownership for investors? That is what the stock market is supposed to be about in a capitalistic society.

Not that we ever thought the market was perfect. Again we reference Mr. Buffett, who long before today's stupidity, described "Mr. Market" as an irrational and often impulsive buyer and seller of stocks who could only be trusted to always quote a price, but seldom had a bid or asking price that Mr. Buffet considered the right price for his businesses.

We assume that "Mr. Market" is in one of his panic selling moods right now and that his offers for the businesses we own should not be taken seriously. On the other hand, we consider the vast majority of his selling prices cheap by any standard. We would prefer if "Mr. Market" finally found a medication to stabilize his bipolar disorder but his psychosis is clearly getting worse, not better.

We must now assume that there will be extended periods of time when "Mr. Market" cannot be relied on to provide liquidity to us at a reasonable price. We will attempt to hold enough cash or short-term debt so that we can avoid having to sell to him for at least a year or two while Mr. Market wallows in an irrational state of depression. That lack of liquidity is an unfortunate inconvenience, but it is more than worth it if we can take advantage of "Mr. Market's" problems to buy exceptional bargains during these periods that others see as financial disasters.

We might not see this market as a disaster but it's still no fun. The fun will come when the panic is a distant memory, the recession is over and we can hopefully report that your portfolio has experienced tremendous gains; however that won't be the time of when we earn our money, that will be easy. NOW is when we make the investments that we expect to pay off in the future. Now is when our faith in the markets is tested and when it's easier to do what feels good than what we know is right.

Finally, thank you for the trust you have shown in us during this difficult period of time. There is no greater honor than having your respect.

## PANIC

Global markets have been in a state of hysteria. The commercial paper and corporate bond markets were decimated. Solid corporate credits traded at record high yields versus treasuries. Municipalities were unable to sell bonds at any price. Wealthy investors pulled hundreds of billions out of hedge funds. The less well heeled bailed out of mutual funds at over three times the record set in the last bear market. Record outflows generally have coincided with market bottoms, but when you are in a panic, who cares about contrary indicators?

At the height of the market's reign of terror, short-term treasuries had a negative yield, meaning you had to pay the government for the privilege of holding your money. Nothing was considered safe enough, as money poured out of markets worldwide and into cash and sovereign debt. US equity markets dropped 50%, Europe 60% and emerging markets dropped an average 70%. That's tens of trillions of dollars of wealth disappearing almost overnight.

Worse yet, this decline comes on the back of a major bear market that ended only five years ago. The stock market returned to levels we haven't seen in eleven years. Over a decade of investing and you haven't made a dime! You have to go back to the seventies to equal that feat and before that, World War II. What followed these record periods of poor performance were the longest bull markets in history, but when you are losing money, who cares about long-term returns?

### **It's no exaggeration to call this "The Panic of 2008"**

This panic was almost as scary as 1987, when the market dropped 30% in a matter of hours and then the exchanges effectively shut down for three days. During that time you had no idea what your portfolio was worth today, much less what it would be worth tomorrow. NO IDEA!

In 1987, it turned out that the villain was a new product called "portfolio insurance," which in typical Wall Street fashion, turned out to be the exact opposite of what the label said it was. They claimed that they had invented the perfect portfolio strategy that promised the upside of owning stocks, but limited risk by automatically hedging with options as markets fell. On paper it looked perfect, until the hedges overwhelmed the market and computers just kept selling mindlessly in a self fulfilling cycle of lower and lower prices. We have better systems now that can cope with computer driven program selling, so the exchanges didn't shut down this time. Any fool who wanted to sell stock in the middle of a worldwide financial panic was perfectly able to do so.

There is one good thing about panics, they are short lived. You can't hold your breath for very long. You either breathe or die. After the panic comes the postmortem. In 1987, after a terrifying fall, the market decided it was just a fire drill and went on to post new highs in a matter of months. Panics that are accompanied by recessions don't come back that quickly. Unfortunately, this one looks like it is the more common panic that precedes a recession and a bear market. Once the panic stops, we will still have to deal with an economy that has taken a hammer blow from the housing bubble and financial crises.

### **WHAT CAUSED THE PANIC OF 2008?**

Like all panics, this one is a natural reaction to the bursting of a bubble, but this time it wasn't Wall Street that caused the bubble, it was Main Street. Even at their highs last year, stocks were far from bubble territory, selling for a modest 17-18 times earnings, nowhere near the mania levels of 25-30 times earnings they sold for before past collapses. That is one of the reasons this bear market caught so many investors by surprise. There wasn't the excessive speculation in stocks that typically precedes a panic.

The bubble wasn't in stocks; it was in consumer credit like housing prices, credit card debt and auto loans. If you want to, you can blame the fat cats on Wall Street for the crisis, but they didn't make Joe Six Pack buy a bigger home than he could afford, take out a second mortgage to get a down payment on a spec condo, max out his credit card debt, gorge on a giant SUV and have his kid go to college on a student loan neither of them could afford to repay.

True, Wall Street got rich slicing and dicing those loans so they could be sold from Singapore to Abu Dhabi, but that is what Wall Street is supposed to do, market the unmarketable. Their only sin was not passing the junk on fast enough. So, when the proverbial manure finally hit the fan, they got dirty too.

It is also true that they leveraged their positions in consumer debt, which we now call “toxic assets,” at a rate of thirty to one. That meant that we didn’t have to wait to find out if those loans would actually go bad before the firms that held them got into trouble.

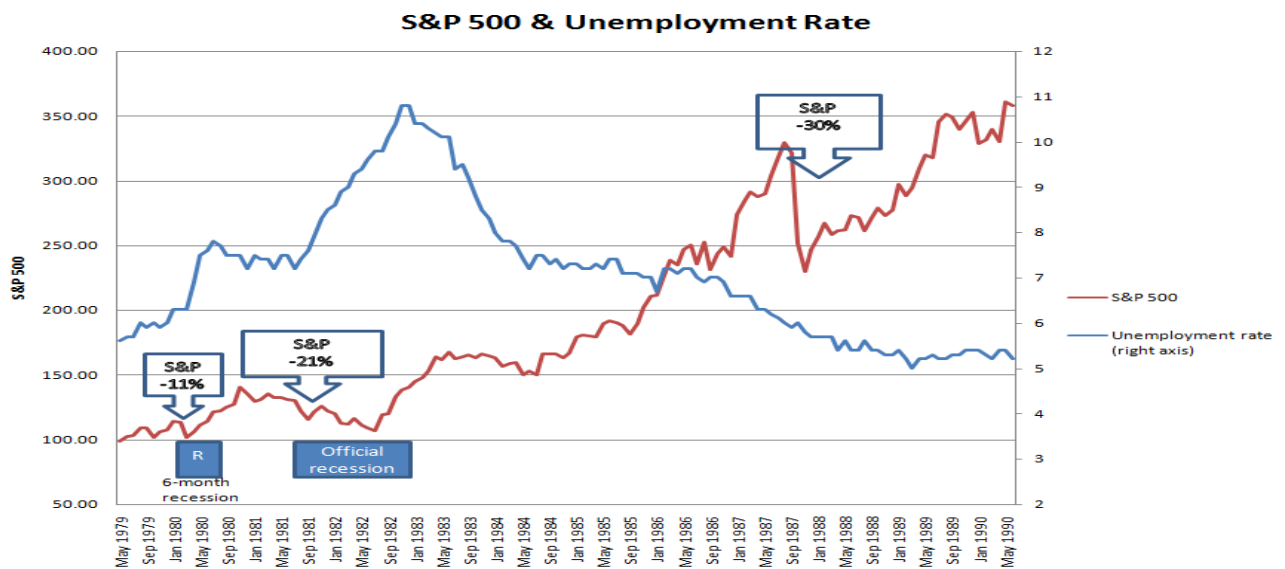
**All we had to do was mark down the prices of the toxic assets a little bit and suddenly everyone on Wall Street ran out of equity simultaneously. Boom, it was instant panic!**

Stocks didn’t cause the panic but they got clobbered anyway. Anything that could be sold was sold, to make up for the losses in the credit markets. Oh sure, some companies had real losses that needed to be reflected in their stock prices, but most of the panic was liquidation at any price to raise cash. It wasn’t selling based on a rational evaluation of a company’s future earnings prospects.

That is what happens in a panic. Nothing appears to be safe. No asset is immune from the flight to safety and we all know that the world is coming to an end. Then, one day we wake up and find that the world didn’t come to an end, we are still alive and it’s time to deal with the recession we created by bursting the bubble.

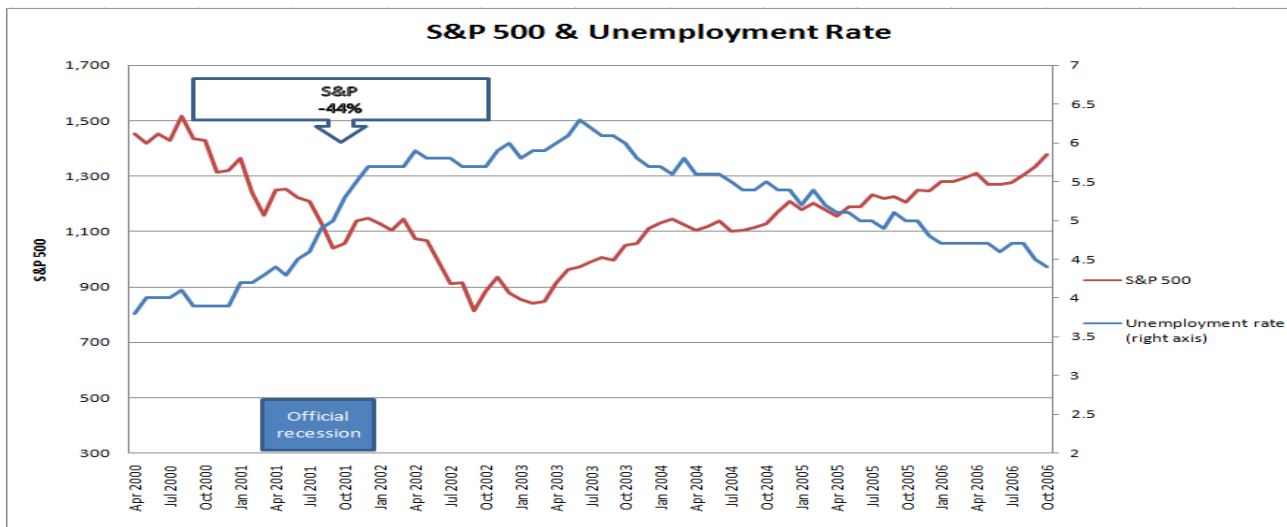
### A LOOK AT PAST RECESSIONS

The 1973-75 recession was a beauty. Talk about a country in a funk; we had the Vietnam War, communism spreading around the world, the impeaching of a president and hyperinflation. There was a brief respite and then things got worse in 1980-1982; with 20% interest rates, 12% mortgages and 11% unemployment. If you had half a brain, you put every penny you had in gold because even with double digit interest rates, inflation was eating your investments alive. In 1982, Time magazine put a tomb stone on the cover with the inscription “STOCKS” on it. What followed was a scholarly discussion of why equity investors hadn’t made money in years and why they never would again. That was negative investor sentiment! Worse yet, it was rooted, not in fears of the future, but in the reality of the time.



Only a raving lunatic would have bought stocks in 1982.

Interest rates were rising, unemployment soaring, companies failing and there was a near universal acceptance that things could only get worse. Of course, it was at that exact moment, when things were the bleakest, that the stock market began the longest and strongest bull market in US history. The 1982-3 bull market saw its biggest gains long before inflation began to subside, unemployment began to fall, or interest rates dropped. That's not surprising. In nearly every past recession the stock market has bottomed out well before the recession was over. Usually, historically the market turned half way through the recession when things looked the worst, the market analysts were the most negative, and all hope appeared to be gone.



The same thing happened in the 2000-01 recession. The chart clearly shows the market turning before the economy improved. If you wait until you get good news before deciding the market is safe to enter, you will probably miss a lot of the recovery and often get in just in time for the post recovery correction.

People who say things like; "I'll wait to buy stocks when the economy is better," are probably kidding themselves. It will probably be too late. Statistics show that 7% of the trading days for the stock market account for 90% of the gains. Those are terrible odds for anyone who thinks they can time their market entry point, because it means you have to get just a few trading days right, or you will miss 90% of the market's moves. Spend too much time in cash and not only will you get the lowest yield possible while seeking safety, you'll ruin any chance you may have had of participating in the market's potentially explosive recovery.

**Real money is made by investing during bear markets, when things look the bleakest, but the probability of significant future returns is the best.**

By the way, the odds are equally bad for traders trying to avoid bear markets. Equities historically have had their worst performance well before bad news was on the front page of the paper. To miss the bear

market you had to avoid that small percentage of trading days when the market had its worst performance, which seldom came with a preannouncement.

### **WHAT IS THE APPROPRIATE RESPONSE TO A BEAR MARKET?**

Since bear markets have happened on average every five to ten years, a rational investment policy has to address how to handle the unpleasant fact that they appear to be an inevitable part of investing.

**We could have a policy that says we will attempt to avoid bear markets by selling before they hit.**

“We will only own stocks in bull markets.” Good luck! The track record of market timers is pretty poor. I’m not saying that somebody doesn’t get it right every time. I’m just saying that very few do compared to the number of those that try and the few that do seldom repeat their success, which means that the chances of getting it right consistently are slim to none.

Even if we try to avoid bear markets, there is a very good chance that one will come out of nowhere and bite us. So, now what? We could go to cash and wait for the recovery, but if we couldn’t predict the market decline, what makes us think we can time the recovery? If we enter the market too early, we will have to sell again in the next false recovery, and maybe the next one after that, compounding our losses while we try to “protect” ourselves. If we enter the market too late, we will miss the best part of recovery and we will have effectively locked in our losses.

**We could have a policy that says we will only allow a certain loss, say 20%, and then we will go to cash.**

This would be a kind of stop loss order for the portfolio. If we sold as soon as we had experienced a 20% loss, we would have saved ourselves 30% (pretax and pre-trading expenses,) but that’s only half the story. The question is, will we get back in before we lose as much on the upside as we saved on the downside? Again, we have to decide on a strategy to get back into the market. Should we buy when the market hits your sell point, or buy on a 10 to 20% move up. We can put all these strategies in a computer to see what would have happened if we followed them in the past and guess what? None of them work! Selling low is the wrong thing to do, and what we do after that just can’t make up for the first mistake. There is no way to know when to get back into the market. The chances are we will be whipsawed so many times that it will eat up the occasional savings we will get from avoiding a continuous market decline.

**We could do just the opposite and have a policy that says we will only buy stocks during bear markets, when the odds of making large returns are the best because valuations are lowest.**

If our objective is to just make exceptionally large returns and you have something else to do with our money while markets are acting normally, it makes perfect sense to buy stocks when they are depressed and sell them as soon as the recovery is in full swing. It takes a cast iron stomach to buy only in bear markets and the patience of Job to wait for markets to come to us, but it would probably work. Apparently, this is Warren Buffett’s strategy for his personal wealth, which he recently announced was moving to stocks from short-term treasuries that comprised most of his portfolio for many years. Of

course Warren has many times that amount in his investment company Berkshire Hathaway, but if you are one of richest people on earth, why not go all in when the time looks right?

Unfortunately, most of us couldn't afford to keep our savings in T-bills between recessions and reap big rewards only every five to ten years. It would work pretty well in most markets, but it would have meant you did nothing from 1992 to 2002, that's a long draught between paydays.

**We think a better course of action for investors seeking some degree of safety and growth is to have a predetermined balance of stocks and bonds, which is adjusted during market corrections to return to a set allocation which is seldom altered.**

There will be times when both stocks and bonds move together making reallocation unnecessary, but in extreme corrections and extreme manias there will usually be enough room to capitalize on the market's volatility. Rebalancing in this way provides a greater assurance that over time, we are buying when prices are low and selling when prices are high.

Equity only accounts cannot rebalance to take advantage of declines in the market, but they can rebalance between industry groups and upgrade for better growth. Stocks rarely move in tandem. There is usually a wide divergence between industry groups, market capitalizations and nationalities. A portfolio manager who is willing to find value anywhere in the market can take advantage of market corrections to improve performance.

**In fact, we believe that over the long-run, we can make more money for our clients because of bear markets, than if they never occurred.**

If there weren't bear markets there won't be the ability to rebalance portfolios in bad markets. Bear markets can let us buy low so that we can later sell high. If it weren't for bear markets, we wouldn't have sell offs in whole sectors of the market that can allow us to find rock bottom deals on some great growth companies that normally sell at ridiculously high valuations.

The memory of 2001 and 2002 is fresh in our minds. During the last bear market we were able to sell some of our beaten down but slower growing value stocks, to buy growth stocks that we thought were dirt cheap. Those growth stocks allowed us to post great returns in 2003 and 2004.

### **HOW LONG WILL THE BEAR MARKET LAST AND HOW BAD WILL IT BE?**

If we are going to tough this out, we need to know what the odds are for an eventual recovery and how much pain we can expect to suffer before this horror show is over. Of course we don't know, but a look at past recessions should be of some help. The past seven post World War II recessions have lasted from eight to eighteen months. We will know how long this will last when it's over, but we just got word that the recession started eleven months ago, so it may be long time before the official recovery is announced.

We know, a lot of the "experts" say that we will have a depression, as bad as 1929, but we have learned an awful lot about how to manage world economies since 1929. We didn't create the Federal Reserve, the FDIC and the G7; get off the gold standard, sign world trade agreements and provide the safety nets of unemployment insurance and social security to make the same mistakes we made in the thirties.

We have less than 7% unemployment. It might go to 8 or 9% next year. In the great depression it went over 20%. If it goes to 11% it would still only match the 1982 unemployment rate. In most recessions, commodity prices are still rising and interest rates are still high until we are near the end of the recession. Today, commodity prices have already crashed, and the Fed has cut interest rates almost to zero.

In most recessions, developing economies get hit the hardest and are the last to recover. They are usually the over-leveraged center of speculation that gets destroyed when the world economy slows. Domestic spending in China is still apparently growing and they just announced a half a trillion dollar stimulus package which they can fully fund from cash in their foreign reserves. There have been a lot a stimulus packages proposed around the world but almost nothing has been spent yet. If they spend anything like the amount of money they are talking about it should help us avoid a severe recession.

**If we take depression off the table, and just assume we are going have the typical eight to eighteen month recession, we can get some sense of how long this recession could last and when the bear market is likely to be over.**

This graphic shows how long past bear markets have lasted and how long it took for the market to return to its pre-bear market highs. We are already 11 months into the recession and 14 months into this market decline. Historically, the average recession last has lasted a little over a year and the average bear market has started before the recession is felt but has lasted about the same amount of time. If this current recession is a big one, we might not get the economy going until 2010. If that happens, it could be another seven or eight months before the market recovers, making this potentially one of the worst and the longest bear markets since the great depression. Even given that bearish scenario, it doesn't seem like it could be a long time to have to wait for the start of a new bull market.

Since the market wasn't overpriced before the bear market began, the time for the market to exceed its old highs could be less than the 40 months it took to regain the damage done after the tech bubble. All we have to do is to get earnings back to 2007 levels and have a market selling at P/E of 18 to potentially reach new highs. That's a lot easier than what the market had to do to exceed 2000 earnings at 30 times earnings.

**Ugly Beast:** The current bear market rivals or surpasses all those in the 20th century, except the crash that started in 1929.

<b>Bear Markets</b>			
<b>Year</b>	<b>Magnitude Of Decline</b>	<b>Mos. of Decline</b>	<b>Mos. Until Full Recovery</b>
1903	26%	13	13
1907	34	14	13
1917	28	13	17
1921	23	20	10
1929-33	83	34	151
1937	50	13	58
1946	22	6	35
1962	22	6	10
1970	29	19	9
1974	43	21	21
1987	30	3	18
2002	45	25	40
2008	47	13*	??
<b>Average**</b>	<b>32</b>	<b>14</b>	<b>22</b>

\*To date. \*\*Excluding Great Depression and 2008.  
Source: Center For Research In Security Prices

**HOW MUCH FURTHER COULD THE MARKET FALL?**

If you don't have to sell stocks for the next year or two you shouldn't care how low the market goes. Let it go insane and think about raising some cash when it's over. Historically, this has not been the time to sell stocks, so sit tight and worry about how much your portfolio is worth when the bear market is over.

For the record, the last seven bear markets have gone down 25-50% from top to bottom, this is equal to the worst declines in recent times (as of 11/20/08). Reality is seldom what the averages predict, but the burden of proof is on those who say this time will be different. It is almost never that different, in my opinion. Our assumption is that this is a panic and that sometime, in the not too distant future, the panic should be over. Even after the panic in the financial markets would be over, we would still be in a bear market, but bear markets have historically ended long before the recession has ended.

### **JUST ONE STOCK**

Markets are hard to grasp. Is the Dow worth 1500, 1000 or 600? Who knows? Let's talk about one company and see if we can see if it is cheap or expensive at today's price?

Chances are that Comcast is your cable company. Would you buy it? No, not just the stock, let's say the whole company at the current price per share because when you buy a stock that's what you are buying, ownership of a company with assets, earnings and growth prospects.

It will cost you \$13.30 per share (11/21) to own the company. Let's see what you get for that. You get a book value of \$13.96. That means, if you take all the company's assets, those lines, routers and cable boxes and depreciate them as fast as the government will allow, subtract the debt of about \$10.00 per share and add in a dollar a share in cash, we get an asset value of a little over the stock price. Fair enough, \$13.30 for \$13.96 of assets, but wait a minute. That's just what Comcast paid for cable lines and equipment. What does it make on these assets? It turns out it makes about \$1.30 a share.

That's a return of about 10% on your \$13.30 if you own the company. That return is after Comcast spends about 6 billion a year to upgrade their system. The cash is after paying interest, taxes and all the overhead cost. It's real money to the bottom line of your company. Their financial reports show that they do not need the cash. They have about 3 billion already and they don't have much debt coming due. They can't buy another cable company because the industry is a near monopoly, so they have been using their cash to buy back stock. Stock buy backs are a good use of capital when the stock is cheap because they make the remaining shares worth more. Comcast could generate enough cash to cut the number of shares outstanding by half over the next five or six years, which could double the value of your investment even if the company has zero growth.

#### **Comcast, unlike its copper wire, legacy carrier competitors is growing nicely.**

Earnings have been increasing by about 9% a year in normal times. Given the recession, they will probably only grow by about 6% next year. Cable is a great business. Have you ever seen your cable bill go down? Will you ever go back to a slower internet speed once you have broadband?

Would you buy the company? Twelve months ago you would have had to pay twice as much for it, but the only thing that has changed is that earnings growth estimates for next year have gone from 9% to 6%. Does that make any sense?

It only makes sense if we are experiencing a short-term panic, where selling is temporarily irrational and markets are giving investors a once in a lifetime opportunity. I am using Comcast only as an example. Today, almost every company we own has a similar story which speaks to us. To traders, these are just

symbols, but to investors who know these companies, they are great businesses temporarily selling at bargain prices.

Is there a better place to invest right now? I don't think so.

## **SOMETHING TO REALLY WORRY ABOUT**

Panics typically don't last long and won't really hurt you unless you sell. Recessions end eventually and when they do, the markets should rebound. Those things don't concern us much.

What keeps us up at night are bigger problems than a typical recession or a financial crisis. What we really worry about is the end of our equity markets as an investable asset, something much worse than what we have experienced at any time in the past fifty years.

How could this happen? It would take a combination of bad policy decisions by the government and corporations that cripple the economy and cause a fundamental change in the investment climate. We believe that such a change happened in Japan in the late eighties that caused them over a decade of pain.

The current crisis brings a set of challenges for us, which if we don't solve, could have disastrous consequences. We now have a world economy. It is critical to us that world markets remain open. If we become isolated from the growth markets of the world, our economy may not grow. A combination of slow growth, an aging population and retirement costs could cause a deflationary spiral at least as bad as what Japan suffered. Investing in a deflationary environment would have to be radically different from the way we have historically invested.

Deflation is the current threat, but we could adopt policies that cause a return to inflation in a way we have not seen since the seventies. Certainly, the current deficits and projected costs of retirement benefits can make inflation a real danger. It remains to be seen if we will rein in deficits in time to avoid an inflationary spiral. If we do not, we believe we know how to protect portfolios from inflation and we will change our investment policies dramatically. The investments that should benefit from inflation would be the exact opposite of those that would appreciate in a deflationary environment, so this change would not be made unless there are clear indications that there has been a fundamental change in the investment climate.

These are terrible possibilities that would destroy wealth in a way we have not seen in our lifetime if we do not change our investments to adapt to them. Fortunately, they are still unlikely events that we believe are entirely avoidable. Barring one of these tragedies, it is best to avoid assuming that "this time is different."

Bill Matthes

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