

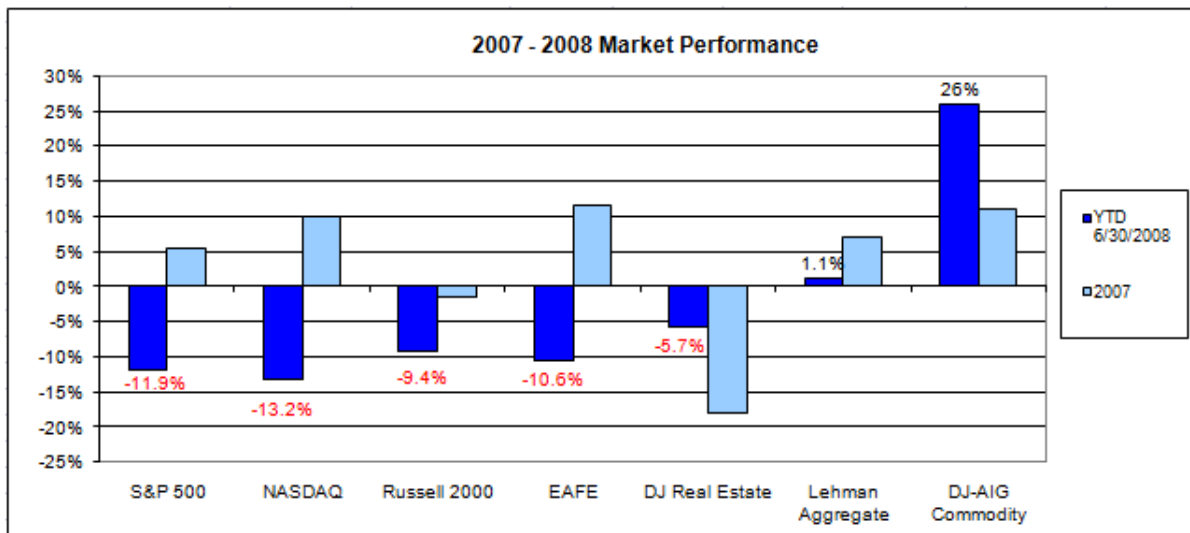


Markets and Economic Summary & Outlook

June 30, 2008

Global equity markets retreated during June following an April and May rebound off the first quarter's weak performance. The increasing likelihood of slower growth both in the U.S. and globally, combined with higher inflation given the run-up in commodity prices, have created significant headwind for equities. In the U.S., the financial sector in particular faced mounting pressure as U.S. home prices continued their descent to more historically normal price levels. Energy, to the detriment of other industry sectors, provided the only bright spot for equity investors during the second quarter.

The S&P 500, comprised of U.S. large and mid-cap stocks, was down **-2.7%** (total return including dividends) during the second quarter of 2008 (vs. **-9.4%** in Q1 '08), while the NASDAQ Composite rose a modest **0.8%** (vs. **-14.0%** in Q1 '08). Non-U.S. equities, measured by the MSCI EAFE index, mirrored U.S. performance, dropping **-1.9%** (vs. **-8.8%** in Q1 '08). Most Asian and European markets are down 10% to 25% year-to-date, marking a disturbing recent trend where equities around the world have become highly correlated with one another compared to past years, thus eliminating some of the diversification benefit from international investing. Commercial real estate prices as measured by REITs (real estate investment trusts) deteriorated rapidly during June, potentially indicating that the commercial side of real estate is likely to cause even more grief for banks and other investors for the next several quarters.

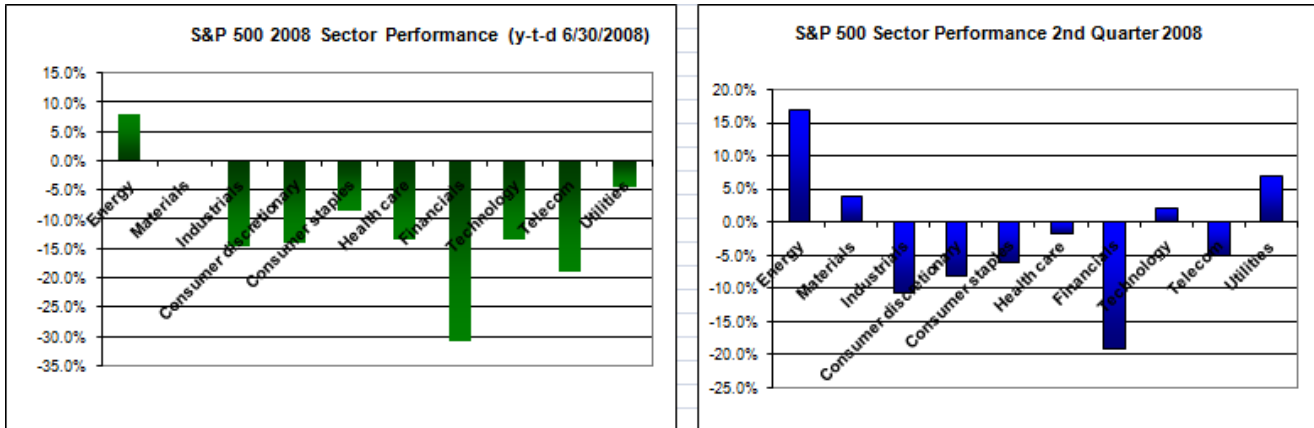


Total returns include capital gains and losses plus dividend and interest payments received and reinvested over the periods described. S&P 500 is an index of U.S. large and mid cap stocks; NASDAQ is the NASDAQ Composite Index; Russell 2000 is an index of U.S. small cap stocks; EAFE is an index of stocks from Europe, Australia, and Far East; DJ Real Estate is an index of traded U.S. REITs (real estate investment trusts); Lehman Aggregate is an index of U.S. Treasury, agency, and investment grade corporate bonds; DJ-AIG Commodity is a total return index of futures contracts on metal, agricultural, and energy commodities.

Commodities (**+15%** in Q2) proved to be the only safe haven for investors during the second quarter, but worries over a commodities "bubble" may lead to a pullback in the second half of the year. Natural gas, crude oil, corn, and soybeans have been the primary drivers in the 2008 commodities push. Investment grade bonds (Lehman Aggregate) lost **-1.1%** during the quarter as credit spreads over Treasuries widened during the quarter.



Second quarter equities performance by industry sector was led by energy, materials, technology, and utilities. Materials include chemical, fertilizer, and mining companies, which generally have performed well during this difficult period. The financial, consumer, and industrial sectors moved sharply lower during the second quarter, and were the primary cause of declines in the major indexes.



Investors in most non-U.S. equities earned excellent returns over the last five years, however most markets in 2008 have declined much more steeply than U.S. equities. China, Hong Kong, and Korea, for example, are down over 20% year-to-date, in sharp contrast to performance in recent years. Brazil is the only major equity market in positive territory in 2008, largely due to the country's relative abundance of basic commodities such as crude oil, coal, and iron ore.

Best Performing Foreign Equity Markets

Last 5-years annualized returns

Year-to-date returns

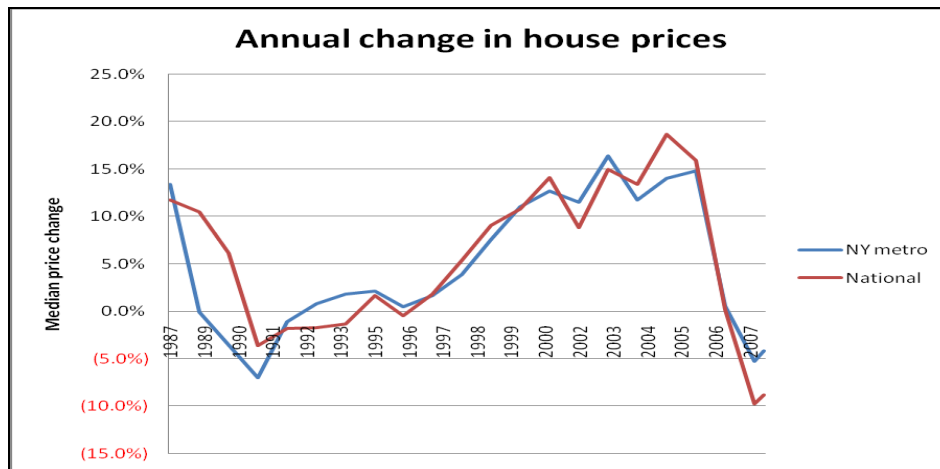
Single Country	Return	Single Country	Return
MSCI Brazil Index(SM) (07/15/2008)	+54.14%	MSCI Brazil Index(SM) (07/15/2008)	+2.15%
FTSE/Xinhua China 25 Index (07/16/2008)	+30.58%	MSCI Canada Index (07/15/2008)	-2.58%
MSCI Turkey Investable Market Index (07/15/2008)	+30.12%	MSCI Israel Capped Investable Market Index (07/15/2008)	-3.50%
MSCI Mexico Investable Market Index (07/15/2008)	+29.16%	MSCI Mexico Investable Market Index (07/15/2008)	-6.37%
MSCI Chile Investable Market Index (07/15/2008)	+26.32%	MSCI Chile Investable Market Index (07/15/2008)	-8.23%
MSCI South Africa Index (07/15/2008)	+24.26%	MSCI Japan Index(SM) (07/15/2008)	-9.00%
MSCI Austria Investable Market Index (07/15/2008)	+23.98%	MSCI Japan Small Cap Index (07/15/2008)	-9.53%
MSCI Canada Index (07/15/2008)	+23.86%	MSCI Singapore Index (07/15/2008)	-10.78%
MSCI Australia Index (07/15/2008)	+22.39%	MSCI Switzerland Index (07/15/2008)	-11.96%
MSCI Singapore Index (07/15/2008)	+22.05%	MSCI Australia Index (07/15/2008)	-13.77%
MSCI Spain Index (07/15/2008)	+20.74%	MSCI Taiwan Index(SM) (07/15/2008)	-15.04%

Source: Barclay's Global Investors (2008 through July 15)

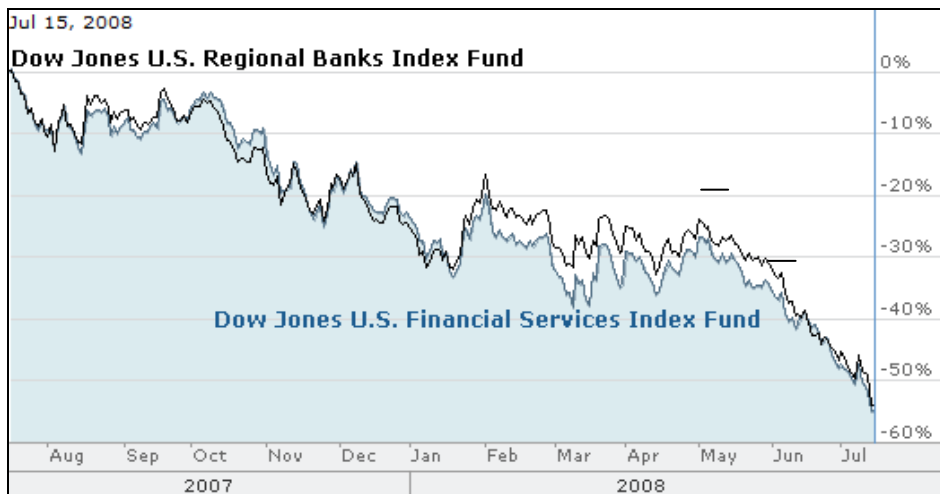
July 2008 Outlook

U.S. economic growth and stock market performance should remain challenged until there's greater clarity on where the bottom lies on home prices, and order returns to the banking system. Home prices are the key to a turnaround, and it's still unclear how much further they may have to fall. The national median home price from 2000 to the peak in June 2006 **rose 127%**, an unsustainable **16% annual rate**. This brief and overly euphoric period, fueled by an abundance of cheap mortgage debt, stands in sharp contrast to the much lower **4%** long-term growth rate in median home prices, which is not too different from the annual inflation rate.

Home prices nationally have declined **19%** since hitting their peak in mid-2006. If one believes in mean reversion, and we most certainly do, then **how much further do home prices have to fall?** Our estimation is that nationally, assuming a 4% long-term growth rate, home prices would have to decline another **11%**, and **17%** in the metro NY region. This seems entirely possible given the banks return to more traditional mortgage underwriting practices and substantial excess housing inventory that has to be worked through. The bottom appears to be about a year in the offing, but this in itself provides a glimmer of clarity and hope for the banks' collective health and potential rebound from unprecedented lows in bank stock prices.



Source: S&P/Case-Shiller





Portfolio implications for the next 6 to 12 months

U.S. and global economies should continue to decelerate the remainder of the year, largely driven by more cautious consumer spending particularly as the chilling effect the first heating bills are likely to have on most people come November. We also expect a general contraction in corporate profit margins and earnings as a result, and to some extent, this appears to have already been priced into equities. The Fed, Treasury, and other arms of the government are using all the tools at their disposal, and making up new ones every day, to deal with the disruption affecting the banks' balance sheets. *Ultimately, we believe this effort will be successful, and light will appear at the end of the tunnel in two to four quarters as home prices bottom out and stabilize. It is very likely that unusually profitable opportunities should spring out of the woodwork, particularly among what have been up until now the hardest hit sectors.*

What follows is our summary outlook for the next several months:

- Repeating our refrain of recent quarters, the financial sector should remain highly stressed for the foreseeable future. IndyMac, a large California S&L, was taken over by the FDIC this past week, and this appears to only mark the beginning of the next wave of failures. It's important to emphasize, however, that only relatively few banks should be forced to pay the ultimate price for past misdeeds, and that the other 12,000 or so banks should cleanse themselves and recover quite nicely.
- Consumer discretionary spending has to be negatively affected in this environment, and most Americans face a further period of adjustment to higher energy costs, which haven't completely sunk in, and won't until the next heating season. Near term this does not bode well for retail, hospitality, gaming and other discretionary sectors. Should energy prices unexpectedly retreat significantly, we'd expect these sectors to rebound quite sharply.
- We anticipate that oil should remain above \$100 a barrel given the makeup of the global supply and demand equation. This would continue to favor North American producers, Brazil, and some of the emerging markets such as the former Soviet states. Other commodities have definitely appeared to reach a frothy level, and we should be wary of the sustainability of 25% to 50% annual price increases, particularly in the face of a potential global economic slowdown however temporary.
- Given the market pullback in recent weeks, there are interesting opportunities among non-financial stocks paying attractive dividends, and utilities, and certain telecoms, qualify for some consideration. There are quite a few attractively priced, high yielding companies (4% to 6%) with stable cash flow, relatively low dividend payout ratios, and manageable debt to capital that appear worthy of further consideration. These opportunities often compare well to the low interest rates in bonds.
- A 2% Fed funds rate and a 10-year Treasury yield under 4% do not make a compelling case for long-term bonds. The interest rate risk on longer dated maturities is too great at these rate points, however, credit spreads are quite wide for non-financial, investment grade short and intermediate term bonds at the present time. Many of these bonds are yielding 5.5% to 6.3%, and are not a bad place to park some funds until the smoke clears in equities.



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