



First Quarter Market Commentary

As we look back, it is now clear that we have been in a bear market since last summer. The S&P 500 index peaked at about 1550 in July of 2007. Over the past eight months the S&P 500 index has declined by 15.2%. Over the same period, the Value Line Geometric index has declined by 21.6%.

Over the past eight months, the average of all accounts under the Multi-Cap Equity Focused Value & Growth Strategy (if this is correct) has declined by 14.6%. Thus, our performance in this bear market has been slightly better than the performance of the S&P 500 and substantially better than the performance of the Value Line index. If we compare our present relative performance to that of the past; we find that our performance in this decline is better than it has been in most previous bear markets. The stocks in our portfolios are growth oriented, and therefore tend to have a greater volatility than the S&P 500 index. ; we would expect this greater volatility to bode well for our portfolio when the market recovers.

During the first quarter, the average of all accounts under this strategy declined by 10.3% after commissions. Over the same period, the S&P 500 and Value Line indices declined by 11.0 and 11.5%, respectively.

Since January 1, 2003, the accounts under this strategy have appreciated by 71.7% after commissions, while the S&P 500 index has increased by 46.0%. The Value Line Geometric index has increased by 46.9% over the same time period.

Our strategy during this market decline is to maintain and/or enhance our cash positions. In those accounts which have approval to sell covered call options, additional cash was raised by selling some covered calls. Our average cash position at the end of the first quarter increased to 13.5%. It is counter – productive to draw money out of the accounts at this point in the market cycle. When it becomes reasonably clear that the bear market is over, investing our cash position will provide us with more upside leverage.

As indicated in my last report, I have updated and attached my long-term annual and cumulative performance to this letter. Over the last ten years, the compounded annual appreciation of managed accounts under this strategy is 10.4%. The corresponding figure for the S&P 500 Index is 4.5%. In dollar terms, this means that we have almost doubled the performance of the S&P 500 index over the past ten years. The figures include the re-investment of dividends and interest and are net after commissions. The S&P 500 figures do not include the re-investment of dividends or the cost of commissions.

TIMING MODEL

The Timing Model weakened in the first quarter, in recognition of the bear market. It has fallen from a neutral reading of 50% last quarter, to a negative reading of 40%. The model is indicating that over the next 3 – 6 months, the market has a 40% chance of rising and a 60% chance of further decline. We will not commit our remaining cash until the Timing Model turns positive.

ECONOMIC OUTLOOK

The combination of high energy prices and the mortgage crisis has finally broken the back of the US economy. Over the past year, the price of crude oil has gone from roughly \$60 per barrel to roughly \$100 per barrel. Crude oil inflation has spread to almost all other natural resources and foods. The decline in mortgage backed bonds has spread to other financial instruments, and placed our financial system in jeopardy. Bear Stearns, the fifth largest investment bank in the world, no longer exists. Numerous mortgage companies are out of business. The bottom line is that Gross Domestic Product growth in the US has been reduced to essentially zero.

The Federal Reserve Board (Fed) has pulled out all the stops. Over the past year, the Fed Funds rate has been lowered from 5.25 to 2.25%. It will probably go lower in coming months. In addition, the Fed has given major banks access to an almost unlimited amount of money. In order to prevent other institutional failures, it has guaranteed the assets of Bear Stearns, for the purpose of consolidation into JP Morgan Chase. The Federal government has also taken actions to minimize the crisis. Numerous programs have been initiated to help individuals re - work mortgages that would otherwise go into default. Most of us will soon get cash rebates in order to help spur the economy.

It is too soon to know how all of this will resolve itself. But there is an old market adage that has worked for at least the last half century: Don't bet against the Fed.

Sincerely yours,

Ray Hofshi

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