



July 28, 2008

The Bear Market continued for another quarter, and has now lasted for eleven months. Thus, the present downturn has already lasted longer than the average Bear Market, which typically lasts about eight months. I believe that the market was trying to form a bottom during the second quarter, but that process was terminated by another spike in the price of crude oil. One hundred and forty dollar oil will make the recovery more difficult.

On a year-to-date basis, the average of all of our managed accounts has declined by 14.7 percent (after commissions). Over the same time period, the S&P 500 and the Value Line indices have declined by 13.5 and 14.7 percent respectively.

Since January 1, 2003, our managed accounts have appreciated by 62.7 percent (after commissions), while the S&P 500 and Value Line indices have increased by 41.9 and 41.6 percent respectively.

We continue to follow our previously stated strategy. Our objective is to maintain or enhance our cash position until there are clear signs of a market turn-around. I have no desire to sell our undervalued stocks in an undervalued market. No stocks were sold or purchased during the second quarter (except in a few accounts which had an excessive cash position). On occasion, where the opportunity presents itself, I continue to selectively sell covered call options. This strategy gradually increases our cash position without giving away too much upside potential. At the end of the second quarter, our average cash position was roughly 13 percent.

#### TIMING MODEL

The Timing model became bullish in May. The recovery, however, was short - lived and was reversed by a move to \$140/barrel crude oil. At the present time, the Timing model has gone back to last quarter's values. It predicts a 40% chance of a market recovery and a 60% chance of continued decline, over the next 3-6 months.

## MARKET OUTLOOK

Over the past year, the Federal Reserve Board (Fed) has reduced short-term interest rates from 5.25% to 2.0%. The low interest rate environment is helping financial institutions to gradually repair their capital structures. At the same time, while housing prices continue to decline, the data on existing home sales indicates that the worst is probably behind us. Thus, if all we had to worry about was the initial housing/financial crisis, I believe that the market would now be able to see the “light at the end of the tunnel” and start forming a new bottom.

The major economic drag that is not getting better is the price of crude oil. In the second quarter, the price of oil spiked to \$140 per barrel. The increasing price of oil has also spread to most other commodities. At these new price levels it is becoming difficult for most Americans to maintain their lifestyles. The higher energy/commodity prices are also making it extremely difficult for corporations to maintain their profit margins. Unless energy costs come down soon, I think higher inflation and slower economic growth would appear inevitable.

The US economy grew at an annual rate of 1 percent in the first quarter of 2008. The rest of the world is growing at a faster rate, but growth overseas is also slowing. It means that corporate profits over the next year, for the market as a whole, should be under pressure. Market prices have already been discounted, however, so it is difficult to predict how close we are to market equilibrium.

Sincerely yours,

Ray Hofshi

The information herein has been obtained from sources believed to be reliable, but we cannot guarantee its accuracy or completeness. Past performance is no guarantee of future results. Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Westport Resources Management, Inc. is an Investment Advisor registered with the SEC.

315 Post Road West • P.O. Box 3089 • Westport, CT 06880 • (203) 226-0222 • Fax: (203) 454-4706  
WESTPORT RESOURCES MANAGEMENT, Inc an Investment Advisor, registered with the SEC and The State of Connecticut