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Dear Client,

Now that the first quarter has come to a close we wanted to update you on our investment plans and some observations about different sectors of the economy.

INVESTMENT PLANS

- As a result of the huge sell-off in the stock market, there are many good stocks selling at very low prices.
- We have cash in reserve, which we will begin to put to work selectively. Because market volatility is still high, we will remain cautious and not invest it all at once.
- While the outlook is still uncertain, the stock market typically anticipates economic recovery.
- Our stock selections have been outperforming the market in recent months (as they have in the past).

OBSERVATIONS

Housing. The good news is that the housing affordability index has risen dramatically. Since October mortgage rates are down from 6.50% to below 5.00%. According to the Case-Schiller Index, housing prices are down almost 30% from their July 2006 highs and, although still high, the months-of-supply of unsold homes has moved downward from its December high. Unfortunately, a high and still-rising unemployment rate diminishes the effect of these positive factors.

Commodities. Commodity prices declined dramatically last year. However, since December the prices of any number of commodities (including oil +50%, corn +21%, and copper +45%) have increased substantially. This may mean businesses are beginning to see profitable opportunities with inputs at these levels. It may also be an indication that the massive de-leveraging of hedge funds and commodity funds is at or near an end.

Financial Institutions. In order to stabilize financial institutions, massive capital injections have been made to the banking system. Large mergers have occurred. Prices of financial institutions are well above their early March lows and it appears Q1 will be a profitable one for the group. Having said this, the banking system is currently going through the Fed's stress test, and additional capital needs and the ultimate pricing/disposition of the toxic assets remain potential problems.

Mark-to Market. The pro-cyclical nature of mark-to-market rules has exacerbated the problems for the financial institutions. To address this, FASB (Financial Accounting Standards Board) voted to relax fair value mark-to-market accounting rules. However, debate continues about the application of the modified rules and the amount (if any) of substantive relief.

Bond Rates. Corporate bond rates have eased from their levels in the wake of the Lehman Brothers bankruptcy, but still need to fall further to get employment and production in the private sector growing faster.

Federal Reserve. Chairman Bernanke's Fed has reduced overnight rates to near zero. It has also established a number of innovative and large programs, both independently and in concert with the Treasury and FDIC, to ease investor fears and help corporate borrowers regain access to the credit markets. Recently the Fed has also begun buying Treasury securities in a further effort to make sure credit flows smoothly and mortgage rates come down significantly.

As always, thank you for giving us the opportunity to work with you to manage your assets. Please don't hesitate to contact us with any questions or concerns you may have.

Michael A. Camp, Principal Joseph F. Hunt, Principal