First Quarter was Weak Early but Ends Strong

Unfortunately the bear market continued in the first quarter with the S&P 500 declining by -11.01%. There were some notable trends: growth stocks did much better than value stocks; big stocks did better than small; and until March, financial stocks were the laggards. The real standout in the quarter was technology stocks posting a 4% gain. Our portfolios were generally tilted in the right direction resulting in a sizable lead on the S&P 500. According to the Morningstar database of Core mutual funds our performance would rank around the 10th percentile for the quarter.

Despite another bad quarter for equity investors the market ended on a positive note with a strong rally in March providing optimism that the worst is behind us. The rally was sparked when the Fed announced their plan to buy long dated securities to keep interest rates low and was supported after the Treasury finally announced their plan to deal with the toxic assets on bank balance sheets. These developments along with the stimulus package should provide a solid foundation for the economy and stock market.

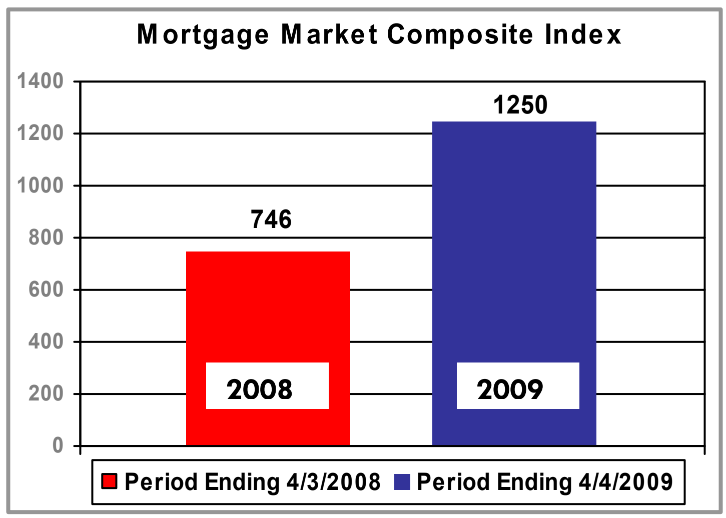
While not perfect the stimulus package is a needed antidote to the negative feedback loop our economy is experiencing that, if not broken, could keep our economy depressed. While there are some questionable items in the stimulus package the majority of the package in terms of dollars spent is good policy. The largest part, at 45%, is tax cuts. Aid for states and the unemployed represents 25% of the total and will most certainly be spent quickly. Infrastructure and education spending is the next biggest and should pay benefits well into the future. Better yet, the U.S. is not alone: virtually all major economies have announced some sort of stimulus package. These collective actions are critical for the repair of the economy and stock market because the highest priority is to halt the free-fall in demand.

At some point we will have to address our deficits, but we cannot tackle that issue until our economy is on firm footing. And when we do everyone will have to sacrifice through higher taxes, lower spending and fewer benefits.

The silver lining to bear markets is the attractive stock valuations that result. We are very excited about the values we see but are also aware that volatility is likely to continue. However not every stock represents good value. In this highly uncertain environment our emphasis will be on companies with strong balance sheets, secure and high dividends, and solid long-term business prospects. Generally speaking we are less focused on businesses selling to the U.S. consumer and more on companies doing business in developing country markets, as domestically we expect a secular shift to more savings and less spending to repair the U.S. consumers' balance sheet. In addition, nimbleness is a virtue we hope to exploit. Already we have adjusted cash levels several times in the past months to take advantage of the trading range of the market. We hope to continue to add value though this process.

We believe the healing process for our economy and stock market is progressing. Although likely to be a bumpy road, the future looks much brighter than the recent past, especially since history shows the stock market moves higher before the economy improves.

SOME GOOD NEWS – RISING MORTGAGE ACTIVITY



Source: The Mortgage Bankers Association (MBA) today released its Weekly Mortgage Applications Survey for the week ending April 3, 2009. The Market Composite Index, a measure of mortgage loan application volume, was 1250.6, an increase of 4.7% on a seasonally adjusted basis from 1194.4 one week earlier. The Index increased 67.6% compared with the same week one year earlier (see chart above).

Thanks for working with us.

Steve Wenstrup, Jim Tillar, CFA and Tim Roesch