

ANATOMY OF A MARKET BOTTOM(ING)

Just when you think it is safe to go back into the stock market.....

The markets have moved in unprecedented fashion recently. As investors we understand the difficulty in staying invested in times such as these. Unfortunately there has been no place to hide in this rapid market decline due to huge sales by institutions that are deleveraging their balance sheets to become regulated commercial banks. In addition, numerous aggressive portfolios (hedge funds) have been forced to deleverage to meet proper leverage ratios, and pay back investors heading for the exits.

Clients are weary and looking for reassurances. We are highly confident that stocks are terrific values today for investors with a reasonable long time horizon. The news from the economy will not be pleasant for awhile but we believe stocks already reflect the poor economic expectations in this downturn. Eventually the economy will stabilize and start to grow again. Despite the drumbeat of negative news there are some positive elements. Fortunately, many companies entered this downturn with solid balance sheets and lots of cash. In fact, this has been a point of emphasis in our portfolios. Moreover, emerging economies, especially China, also entered this period of economic weakness in solid financial position. China has over \$2 trillion in reserves and a population of net savers which will provide support unlike any other recession in our history.

Unfortunately anything can happen in the short term so new lows are still a possibility. We want to be sensitive to your (and your clients') concerns should conditions worsen even from these significantly low levels. We have increased positions in sectors that we expect some resiliency amidst economic volatility and have reduced some exposure to areas we see as overly subject to market instability.

What is certain is that volatility will be with us. We believe there is an opportunity to navigate the volatility to increase returns and reduce risk during what could be a prolonged market recovery process. The stock market reached extreme oversold conditions **last week**: the S&P 500 hadn't been as far below its 200-day average since 1932; nearly 40% of S&P 500 stocks were below \$10; \$4 billion in market capitalization, the minimum level new stocks must meet to be added to the index; and more than 40% of the stocks in the Russell 3000 were trading below \$10!

It is in times like these we will take advantage of bargain prices to purchase those unique high quality growth companies we normally find too "overvalued" within the criteria of our stock selection discipline. In addition, from present levels a meaningful rally may occur through the end of the year which could give us an opportunity to raise some cash if we feel the market has run too far, too fast. We are happy to wait with some cash to take advantage of the volatility that we feel we are sure to see.

Here are some of our stocks that have announced positive developments even during the recent market decline.

TW High Quality Stocks

ADOBE

A new addition to our portfolios, (Nov. 13, 2008) Adobe represent the opportunity to buy leading technology stock that normally trades at a premium valuation... on sale. Great operating margins, established products, rock solid balance sheets and unique network of ingenuity drive this market leader in creative software.

P/E – 6.1x

ABB Ltd.

November 12, 2008 - Cash-rich ABB Ltd (ABB) Wednesday said it will buy Canada-based Ber-Mac Electrical and Instrumentation Ltd., paying testimony to the Swiss electrical engineer's financial health even as the company struggles with weakening demand for its products.

P/E – 6.1x

Dividend Yield - 4.5%

ADP –Automatic Data Processing

November 11, 2008 - Automatic Data Processing, Inc. announced a 14% increase in the cash dividend to an annual rate of \$1.32 per share

P/E – 16x

Dividend Yield – 3.7%

Emerson

November 4, 2008 - Emerson's board has voted to increase its regular quarterly dividend by 3 cents, or 10% to \$0.33 cents.

P/E – 11x

Dividend Yield – 4.1%

(TW High Quality stocks continued)

DIAMOND OFFSHORE

October 23, 2008 - Diamond Offshore announced that the Company has declared an increased special cash dividend of \$1.875 per share of common stock and a regular quarterly cash dividend of \$0.125 per share of common stock.

P/E – 9x

Dividend Yield – 11%

Johnson & Johnson

October 14, 2008 - Johnson & Johnson raised its fiscal 2008 outlook and expects earnings per share (EPS) of \$4.50-\$4.53. The Company cited due to strong sales performance of Consumer segment and the solid sales results in Medical Devices and Diagnostics segment as the primary reasons for positive outlook.

P/E – 13.3x

Dividend Yield – 3.2%

Potash

September 11, 2008 - Potash announced an increase to the share repurchase program authorized in January 2008, raising the ceiling to approximately 10% of the public float or 31.5 million of the Company's issued and outstanding common shares.

P/E – 6.6x

Dividend Yield – 0.5%

Coca-Cola

September 3, 2008 - The Company expects to repurchase a total of \$1 billion of its stock for the full year.

P/E – 15x

Dividend Yield – 3.4%

Some Industry Observations:

James Wells Ph.D-Wells Management-Strategist

“(T)his crisis is more about “good debts nobody is willing to buy”, ...mark to the market accounting laws have forced financial institutions to record good assets at prices woefully below true fundamental value.

Steven Leuthold -Leuthold Research Group

“..From current valuations levels the stock market has returned an average of 40% over the subsequent two years, historically.

James Kotok CEO Cumberland Advisors

“...Global Liquidity is being created at mammoth rates ...Fear is and was global... All this is Bullish for financial assets.

As always we appreciate the opportunity to work with you and look forward to answering any questions you might have.

Steve Wenstrup and Jim Tillar, CFA

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