Investment Update

January, 2009

2008 Fourth Quarter Update

Review: It was the worst quarter for stocks in decades. The S&P500 was down 21.9%. Bonds benefited from the flight to safety. The Merrill Lynch Intermediate Government/Corporate Index rose 4.1%. For the year, the returns were -37.0% and +4.1% respectively.

Annual	*4Q08*	*3Q08*	*2Q08*	*1Q08*	*4Q07*
S&P 500 Index	*-21.9%*	*-8.4%*	-3.8%	-9.4%	-3.3%
Merrill Lynch Int. Bond Index	*4.0%*	*-1.3%*	-1.4%	2.9%	2.9%

The Economy: The economy fell further into recession as the quarter progressed. The economic data were uniformly weak. Retail sales had a rare year-over-year decline. Auto sales plunged and housing continued to decline. The unemployment rate rose from 6.1% in September to 7.2% in December. Corporate profits are expected to decline by 20% in 2008.

At this point, the key questions are: How long and how deep will the recession be? The National Bureau of Economic Research, the official arbiter of economic cycles, recently announced that the recession began in December of 2007. We believe that the economy will bottom in the third quarter of this year, making the recession 20 months long- exceeding the 1981-82 recession by four months. Measured by unemployment, this recession will go down in the record books as the deepest since 1981-82 when unemployment peaked at 10.5%. We expect unemployment to peak at a lower level, in the area of 8-9%, because policymakers have been proactive in responding to the recession with rate cuts and fiscal stimuli.

We expect the economy to improve because: 1.) The Federal Reserve has dramatically lowered short interest rates to near zero, reducing interest costs for consumers and businesses. The lowering of mortgage rates due the Fed actions could easily lead to a decrease of $200 billion in mortgage payments for consumers and help stabilize the housing market. 2.) The Congress is expected to provide a stimulus package of $700-800 billion. The package is expected to include about $300 billion of tax cuts which will go into effect immediately. 3.) Lower gasoline and heating oil prices could add $250 billion to discretionary spending. Taken together, these factors should add about 5% annually to GDP growth over a two year period, reviving the economy. The total stimulus announced by other countries amounts to about $750 billion, almost matching the US figure, and should support global growth.

Stock Market: We believe that the stock market bottomed in November. The road ahead will not be an easy one, but the market decline of 48.5% from October 2007 to November 2008 has fully recognized the severity of this recession. Stocks are attractive based on historical valuation measures. There is certainly ample liquidity to support a significant rally. Bloomberg reported that there is $8.8 trillion in cash, bank accounts, and money market funds. The missing ingredient is confidence. That will return when there is a sense that the economy has bottomed. Given that the markets anticipate economic trends three to six months ahead, we think that the market will improve over the next quarter or so.

Bond Market: When financial markets stabilize, we believe that high quality corporate and municipal bonds will offer attractive returns for fixed income investors. The huge federal deficits projected for the next several years will require large amounts of government debt, making government bonds less attractive for now. The main concern for bond investors is the risk of inflation resulting from the massive fiscal and monetary stimulus being pumped into the economy by the government. We believe that lower energy prices and slack in the labor market will restrain inflationary forces for the foreseeable future.

Strategy: Based on our view that stocks are attractively valued and that the market has bottomed, we are slowly increasing our equity investments.

Our portfolios have a significant core of strong stable companies in recession-resistant sectors such as healthcare and consumer staples. We are beginning to add strong companies in more economically sensitive areas that are well positioned for the eventual recovery.

We are raising our weighting in financial stocks. Financial stocks led the market decline, and we believe that financials will lead the market upward. Credit is the lifeblood of the economy. As credit markets improve, the economy will follow. We are focusing on financial companies with strong balance sheets, such as JPMorgan Chase and Wells Fargo, who are gaining huge amounts of market share. We expect concerns about inflation to be the pivotal factor. Therefore, we believe bonds will provide only mediocre returns this year.