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Not only have the individual financial institutions become less vulnerable to shocks from underlying risk factors, but also the financial system as a whole has become more resilient.

— Alan Greenspan, 2004

With perfect vision of 20/20 hindsight, these words of the former Federal Reserve Chairman seem outrageous. The current financial environment appears dire, but there will not be another Great Depression. The horrendous decline in U.S. and global credit and equity markets appears to be in the process of groping for a bottom. Although the major averages will continue to fluctuate widely, many stocks have possibly already seen their lows for the year, while others have incurred the biggest part of their downturn. Higher stock prices will most likely be registered over the course of the remainder of the year and in 2009. The U.S. has probably entered a recession from which it should emerge during the second half of next year. Stocks will not wait for the recession to end before climbing higher.

At the end of September, equity markets around the world had registered a dismal year. The S&P 500 had declined 19.3% during the first nine months of the year. Most foreign markets, especially emerging markets, fared even worse. China was among the worst performers, with a decline of 67%. Of far more importance was the unraveling that occurred in the credit markets, the lifeblood of a modern economy. While the first nine months of the year were debilitating for the markets, the first half of October accelerated the steep descent of asset prices that moved into overdrive with the bankruptcy of Lehman Brothers on September 15 and the effective takeover of AIG by the U.S. government on the following day. The deleveraging of financial markets that began in the spring of 2007 took on a greater sense of urgency during the third quarter and culminated in October with the greatest margin call of all time.

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Between October 1 and October 27, the Dow Jones Industrial Average (DJIA) plunged 24.38%, a decline of 40.69% from its peak of 14,164 on October 9, 2007. In a dizzying whirlwind of volatility, the Dow registered average daily moves of 5.4%, percentages not seen since the crash of 1929. Highly leveraged hedge funds were a primary culprit in the unloading of stocks at ever-lower prices. Individuals, seeing stock prices tick lower by the minute, became gripped by fear and panic and sold stocks and mutual fund shares indiscriminately. With each passing day that stocks declined, margin calls to hedge funds and individuals accelerated. Executives had to dump their company stock as margin calls sucked them into the vortex of selling. The forced selling may have reached its zenith on the morning of October 10, when the Dow opened sharply lower, falling 679 points before reversing its decline to rally over 330 points in the afternoon, and then posting a net loss of 128 on the day. The wild fluctuations produced the first 1,000-point range day for the DJIA.

October 10 marked the end of the worst week in history for the Dow in terms of point decline. The following week continued to see extreme volatility as forced selling continued unabated, but the Dow did manage to register a 4.7% gain for the week, buoyed by an op-ed piece in *The New York Times* by Warren Buffett encouraging investors to buy stocks in U.S. companies. An incipient thaw in the seemingly frozen credit markets also pointed to an arrest of downward spiraling prices.

The events leading up to another October massacre have been well chronicled. The asset bubble in housing, and its corollary, a bubble in commodities, ushered in some of the most dramatic events in American financial history, many of which, in recent weeks, have been thrust upon the markets at a bewildering pace. The Federal Government has taken control of Fannie Mae and Freddie Mac. Lehman Brothers collapsed, and Merrill Lynch sought refuge in the arms of Bank of America. Uncle Sam bailed out AIG, the world's largest insurer. Morgan Stanley and Goldman Sachs rushed to become bank holding companies. The failure of Bear Stearns in March, and the demise of Lehman, along with the rescue/restructuring of Merrill, Morgan Stanley, and Goldman signal the end of an era for the big five of investment banking. These investment banks, heavily dependent on wholesale non-bank funding through short-term debt, coupled with the unbridled leveraging of their equity capital, could not withstand the collapse of the credit markets that buckled under the weight of non-marketable debt, whether it was short or long. Along with the investment banks that came under assault, we have seen a number of banks fail or be forced into shotgun weddings, with Washington Mutual and Wachovia being the two most recent, notable examples.

As the market price of securitized debt, most notably mortgage-backed securities in the face of increasing foreclosures, spiraled downward, the assets of investment banks and traditional banks cascaded down in value. This development was exacerbated by the mark-to-market rules under which they operate. The debt spiral became a spiral of death for some and a near death experience for others. Initially, a number of institutions were able to raise capital from private equity and sovereign wealth funds. But, as the decline in value of their assets accelerated, financial institutions were forced to raise reserves and ever more capital. With fear

mushrooming with each new failure, and seeing their stock prices plunge, the ability of financial institutions to raise capital reached a state of hopelessness. Businesses and consumers began to walk and, eventually, run to move their funds from the weak to strong banks. But depositors viewed even the strongest banks warily. Banks around the world were faced with declining capital and frightened depositors. When Lehman filed bankruptcy, the oldest money market fund in the U.S. "broke the buck," as its net asset value declined below one dollar. Immediately, money market funds were faced with a run on their deposits. The commercial paper market, a major source of investment for money market funds, froze. Banks, their balance sheets shrinking, began to tighten credit, and they also became fearful of lending to one another. The London Interbank Offered Rate (LIBOR), the rate at which banks are willing to lend to each other, rocketed to 6.88%. In short, the securitization of debt fueling the asset bubble in housing and the subsequent bursting of the asset and debt bubbles had reached beyond Wall Street and its global counterparts; its cancerous growth was enveloping Main Street.

U.S. Treasury Secretary, Henry Paulson, and Federal Reserve Chairman, Ben Bernanke, spearheaded a number of measures throughout 2007 and 2008. As a result, interest rates have been lowered by central banks around the world. The present federal funds rate is 1%. They facilitated the rescue of Bear Stearns by JPMorgan Chase in March. Their early attempts to deal with the credit implosion, while well intended, were not successful in stemming the deterioration in the credit markets. It was hoped that the takeover of Fannie and Freddie would arrest the credit crunch. It did not. As events propelled the credit markets to a crisis stage, Paulson, Bernanke, and the U.S. government have taken a series of measures aimed at stabilizing credit markets and engineering credit flows to the economy. The $700 billion rescue package enacted into law has been the source of funds for the Treasury buying equity stakes in nine of the largest banks in the U.S. The Treasury will pump money into even more banks. They may also begin buying many of the "toxic" securities held by financial institutions—although they have been quick to point out

their resources would not be made available to the hedge fund industry. The Federal Reserve has truly become the lender of last resort, as it is making loans to embattled financial institutions and central banks around the world. The Federal Reserve has the most levered balance sheet of any bank in the world. And, among its many other activities, the Fed has now entered the commercial paper market to serve as a buyer.

Many books will be written about the transformation of the American financial system. The extraordinary measures undertaken over the past several weeks by the U.S. banking and government authorities, along with their world counterparts, have probably pushed the financial markets back from the precipice of a global meltdown. Doubtless, there will be many unintended consequences, some of which will not be positive, but that is a chapter for another year.

It would be easy to second-guess any individual or agency that has been trying to deal with the fallout from the commodity and housing bubbles of the recent past. But in retrospect, there is a growing consensus that the failure to prevent Lehman from going bankrupt was a tactical, if not strategic error. It was the unraveling of Lehman that was a major contributor to the plunge in the equity markets between the day of its bankruptcy, September 15, and the intraday plunge of the Dow to 7774 on October 10. Although there are many aspects of Lehman that led to its downfall, its debt exposure and its functioning as a prime broker to the hedge fund industry were major factors in the wholesale liquidation of stocks over the past few weeks.

When Lehman filed bankruptcy, it had significant debts, including $365 billion that were backed by credit default swaps (CDS). A credit default swap is basically an insurance contract between two parties whereby one side swaps or, in essence, insures the default risk associated with a particular bond to a counterparty in exchange for an agreed upon premium. If the bond issuer experiences one of any predetermined credit events, for example debt restructuring, covenant defaults, or bankruptcy, the protection seller must make the protection buyer whole. However, unlike traditional insurance contracts, CDS can be traded to another party in what has become a burgeoning and opaque secondary market. Banks initially were the primary participants in the CDS market, but today hedge funds, financial institutions, insurance companies, and large corporations worldwide participate in this unregulated market. In fact, when the history of this debacle is finally written, AIG will be at the center of this story. AIG sold insurance on hundreds of billions of dollars of assets, with almost no collateral. The poor decision making and lack of supervision of

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this division within AIG is what led to the company's ultimate collapse. We cannot do justice to the intricacies of the CDS market in this paper, but suffice it to say this unregulated market is at the crux of much of the turmoil and uncertainty in the financial markets. In Lehman's case, the debt which was covered by CDS had to be paid out at par. While many of the CDS backing Lehman debt were held by strong financial institutions, which should be able to bear the cost of paying par for the defaulted debt, other CDS backing not only Lehman, but also Washington Mutual, were held by hedge funds—many of which will not be able to survive significant losses.

Hedge funds typically use leverage to enhance their returns. Many have seen the CDS market as one in which to enhance their returns as well. When Lehman pulled the ripcord, it compounded an already developing problem for a wide array of hedge funds. Prior to Lehman's demise, the bubble in energy, industrial, and agricultural commodities peaked in early July. For many hedge funds, shorting the dollar and financial stocks and going long commodities and their related stocks was a profitable trade up until the balloon was pricked. As the speculation in commodities peaked, the dollar strengthened, and a number of financial stocks appeared to be basing and then moving higher; this trade was no longer profitable. The price of commodities and their related stocks began to decline. Hedge funds began to liquidate their

Stocks Historically Have Rebounded After a Tough 12-Month Period

DATE	GREATEST 12-MONTH DECLINE	P/E AFTER FALLS	1 YEAR LATER	3 YEARS LATER
MAY 1970	-26%	14.7x	30%	37%
SEP 1974	-41%	8.0x	32%	52%
JUL 1982	-18%	7.4x	52%	78%
AUG 1988	-21%	14.1x	34%	51%
SEP 2001	-28%	25.3x	-22%	7%
OCT 2008	-33%	12.0x*	?	?

*forward P/E ratio

LOOKING FARTHER BACK (150 YEARS), THE PATTERN CONTINUES:

DATE	GREATEST 12-MONTH DECLINE	P/E AFTER FALLS	1 YEAR LATER	3 YEARS LATER
JUN 1877	-34%	n/a	25%	75%
NOV 1974	-37%	10.6x	41%	49%
OCT 1930	-36%	18.2x	-43%	-47%
JUN 1932	-66%	5.6x	118%	112%
MAR 1938	-43%	12.4x	20%	-3%

SOURCE: *TRUE WEALTH*, DR. STEVE SJUGGERUD

positions. The rush to the exits became crowded, and price declines in stocks and underlying commodities accelerated. Lehman's bankruptcy filing sent hedge funds scrambling. Already faced with pressure on returns due to the unwinding of the energy and commodity bubble, many were startled with the realization they would have to pony up billions for the Lehman CDS. A related and significant factor aside from the CDS issue was the fact that Lehman was a prime broker for many hedge funds. A prime broker serves as a custodian for the assets and lender of capital to hedge funds. While many of the Lehman accounts were domiciled in the U.S., a large number of hedge funds had their assets custodied in London. Unlike U.S. law, British law may place these hedge funds in the position of general creditors rather than having a claim on the assets custodied by Lehman. Having lost access to their assets held in London, many hedge funds were forced to sell any remaining assets held outside of London—at any price—to meet growing redemptions. One notable hedge fund, that of Boone Pickens, has already filed a claim against Lehman to release assets. We suspect Pickens and others will pay substantial legal fees for the foreseeable future in prolonged legal battles to try and secure their funds.

The upshot of the Lehman debacle for many hedge funds is the overwhelming amounts of cash they have been forced to raise. For many of these funds, the end of September marks the date that investors can notify the hedge funds they want to redeem their interests. The year of 2008 had already developed into one of the worst on record for an industry that typically charges 2% in fees plus 20% of the profits. Before Lehman's demise, hedge funds were already anticipating significant redemptions. As Lehman imploded, a number of funds were faced not only with the issue of poor returns and a call for redemptions but also with having to raise cash for the CDS for which they were on the hook. The results were predictable. For the last several years, hedge funds have been the marginal buyer and seller of securities, replacing the mutual fund industry which had played that role in the 1990s. Their time horizons are extremely short; their incentives are geared to high payouts for themselves, with the concomitant expansion of leverage in a low interest rate environment. In the face of rising investor discontent and the double whammy of the Lehman CDS cash call, they had to sell assets quickly. They certainly could not borrow any funds from the banks nor raise additional funds from disenchanted investors. Their banks and prime brokers were calling for more collateral. What to sell? For funds that may have held bonds, the credit markets were in gridlock, and what prices could be realized seemed surreal. Nevertheless, they were forced to sell. If there were no bonds to sell, hedge funds turned to their only liquid source of potential cash—stocks.

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Thus, the months of September and October have witnessed hedge funds turning to what

we would call the Electronic Pawn Shop (EPS). Some unfortunate individuals, unable to get a loan from their bank, tapped out on their home equity ATM, and persona non grata among their relatives to whom they are already in hock, often turn to the local pawnshop. Off they go with their guns, jewelry, watches, guitar, and anything else with which they might raise a buck. Sadly, they are met with a look of disdain, and a firm, "Take it or leave it." Desperate, they take it. Pawnshops do a brisk business in times of economic downturn. In bear markets, and particularly this one, with the pressure on hedge funds and others to raise cash out of necessity or fear, and with stocks their only liquid asset, they have cashed out at the EPS—often at take it or leave it prices.

The forced selling by hedge funds has fed the angst of investors who held securities portfolios and mutual funds. Liquidations picked up steam on both fronts. Soon the steep decline led to a major increase in margin calls. Fear and panic swept across the globe. The global EPS was open twenty-four hours a day. Yet, as with all panics, it will eventually end. After a portfolio is liquidated, there is nothing left to sell. At some point, the selling pressure eases. We believe we have reached that point. The equity markets have moved beyond the point of supreme panic to the process of building a bottom.

We thought it instructive to examine some of the key factors which led to the massive sell-off of the past several weeks. Although we have not chronicled all of the historic steps that have been taken around the globe to combat the financial stress that reached extreme levels in recent weeks, we suspect that readers are fairly familiar with most of the key measures being implemented. We are seeing the value of all but the safest of financial assets being questioned and their prices routed along with a massive and rapid financial deleveraging. This combination puts horrible stress on the financial system.

Former Federal Reserve Chairman, Alan Greenspan, in Congressional testimony, remarked that he was "shocked" at the extent of the downfall in the financial markets and that private institutions had failed to exercise market discipline. We are skeptical that he is shocked. Market discipline failed because incentive systems that were incompatible with anything resembling market discipline evolved out of market interactions, repeated asymmetric monetary policy responses to asset bubbles, and financial market deregulation. The past decade and a half of asset bubbles in equities, bonds, real estate, and more recently commodities, including energy, can only partly be blamed on a Federal Reserve's repeatedly wrong moves on interest rates. Asset bubbles have become distorted and deranged by the rewarding of shortsighted, system eroding behavior. Some of the root causes of the failure of market discipline were detailed in *The Richebächer Letter*:

> *1. The originate and distribute business model: Securitization of loans meant the originators of the loans were incentivized to produce new loan volume and generate fee income while ignoring the usual due diligence on credit default risk;*
>
> *2. The over-reliance on credit rating agencies as a reasonable substitute for credit analysis on complex instruments, given the fact they were paid by issuers, so their incentive structure was skewed to presenting the offerings of issuers in the most favorable light possible;*

3. The competitive pressures in the institutional investment world that encouraged a focus on delivering investment returns over time horizons ridiculously short in light of the long-dated liabilities (pension funds, university endowments, etc.) being managed;

4. The shift in compensation structures as investment banks went from partnerships to public companies: a winner-take-all, pirate-like culture took root among key investment professionals; and

5. The prevailing bias introduced by value at risk-based risk management systems that encouraged many investment strategies designed to construct instruments that booked insurance-like premiums while the eventual arrival of what is known as tail risk, usually of sufficient size to wipe out much of the cumulative value of the prior premiums earned.

Thus, erratic and loose monetary policy, the growth of securities debt (of which mortgage backed bonds were the most egregious example), prostituted rating agencies, investment banks playing with other people's money, mushrooming hedge fund growth fueled by engorgement of debt, and the exponential growth of unregulated collateral default obligations have given rise to the most recent and certainly the greatest of the serial asset bubbles. This bubble has now burst, and its unwinding has been a very painful event for all investors globally. The failures of the investment banks, the equity erosion suffered by commercial banks and insurance companies, the disgorgement of assets by hedge funds to wind down leverage, and the implosion of the credit default obligation markets have ushered in the historic and unprecedented stress on credit markets and equity markets around the globe. The fallout of this great unwind has manifested itself in the last several weeks through severe strains on financial institutions and their ability to extend credit, resulting in a severe, worldwide decline in equity prices.

In the aftermath of the turmoil that has rocked the financial markets, there will doubtless be some significant regulatory changes adopted by government agencies and central banks around the world. Some potential changes seem most probable. Higher capital ratios will be required among financial institutions. Off-balance sheet activity is likely to be banned or strictly curtailed—farewell to structured investment vehicles or SIVs. The collateral default obligation markets will be regulated. The origination and distribution of securitized debt is likely to be meaningfully curtailed. Rating agencies will be required to change their business model to incorporate reimbursement from the buyer and not the seller of debt. And, certainly of prime importance, the hedge fund industry will come under greater regulation, disclosure, and oversight, and the ability of banks, brokerage firms, and other financial intermediaries to create leverage beyond what will be deemed "appropriate norms" would seem to be a major goal of global governments and bankers.

There are about 8,000 hedge funds around the world, which had approximately $1.72 trillion under management as of 9/30/08. A number of industry observers have recently predicted that anywhere from 30% to 50% of these funds will cease to exist. Clearly, the hedge fund model will be under pressure. The excesses that fostered the asset bubbles that have brought many banks to their knees have also placed hedge funds at the center of the storm sweeping through financial

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markets. Their urgency to liquidate assets—both bonds and stocks—has placed significant pressure on asset prices across the board. From a historical perspective, recent market activity has rivaled that of some of the worst market panics in recorded history. The liquidation of assets in the rush to deleverage and raise cash has resulted in pricing of equity securities to reach valuation levels that have usually marked the end of major declines. Markets may continue to be volatile, but the equation has shifted the balance substantially in favor of reward over risk.

Without question, the months of September and October have been marked by historic levels of stress in the markets and certainly among investors as well. In periods of panic, fear trumps judgment and valuation. During the four-week period between the middle of September through the middle of October, the S&P 500 fell by more than 3.5% eight times and by more than 7% three times. It was also up by more than 4% five times and had one 11% increase. Only three times in peacetime—mid-1932 (the market trough of the Great Depression), October 1929 (the historic crash which marked the end of the Roaring Twenties), and October 1987 (sparked by the blowup of portfolio "insurance")—have equity market returns been so large and volatile in both directions. We have been living through a historic panic that will be more than a footnote in history books.

We believe we are near the end of the worst stage of the great unwind. Unlike the period of the Great Depression, the policy responses of central bankers and governments are markedly different today. In the U.S., the measures being undertaken by the Federal Reserve and the U.S. Treasury should be cumulatively effective in bringing an end to the disorderly deleveraging of financial institutions, which in turn should facilitate the restoration of credit to businesses and consumers. The U.S. and governments throughout the world are investing in banks, providing cash and guarantees on deposits and loans, and acquiring the "toxic" assets buried on the books of financial institutions. The liquidity being injected into the financial system will find its way into the real economy and restore confidence in the outlook for the economy.

It appears that the collective angst fostered by the financial crisis will lead to a slowdown in economic activity for two or three quarters, thus satisfying the classical definition of a recession—a decline in GDP for two consecutive quarters. But the markets have priced in an extremely severe downturn in economic activity that will probably not be nearly as bad as anticipated. Markets usually bottom during a recession and well before a recovery. Businesses have kept inventories lean and labor costs are still relatively contained. Business and consumers have received a "tax cut" with the steep drop in the price of energy and other commodities (many food

prices have fallen). Inflation is not on the horizon. The aggressive steps taken by central bankers and government treasurers have begun to thaw short-term interest rates, including commercial paper and LIBOR rates. As credit markets unlock, business and consumer confidence will gradually move upward. Inventories will need to be rebuilt, which will further stimulate economic activity. Corporate profitability should begin to improve in the second half of 2009. Markets will begin to anticipate a recovery well before it is registered in corporate reports.

We have not discussed the housing market, but here too, there are emerging signs that housing prices are forming a bottom in a number of locations around the country. As prices have declined, housing affordability has increased. With new home sale construction plummeting to new lows and the sale of existing homes rising, the average number of months of housing supply has gone down from over eleven months to approximately nine months. The drop in the amount of unsold homes in August was actually the most since recordkeeping began in 1963. This is a very significant development, and one that is not being widely reported. In addition, inventories are now at their lowest since June 2004, 174,000 below the June 2006 peak of 570,000, and not all that far from normal levels of approximately 350,000. The math on why this is happening is simple: the construction of new homes has now fallen below that of household formation. The rate of ascent in mortgage resets and foreclosures is also slowing down. With each passing month, future reports should show a continued improvement in both pricing and the supply of available homes for sale. As consumers sense a turn in housing, housing's contribution to the economy will move from a negative to a growing positive.

A bevy of statistics could be marshaled to show how extremely undervalued securities are based on current price levels. Whether

Value Line Market Statistics
As of October 21, 2008

The Median of Estimated Price-Earnings Ratios of all stocks with earnings: **11.7x**

26 Weeks Ago	Market Low 10-9-02	Market High 7-13-07
16.3x	14.1x	19.7x

The Median of Estimated Dividend Yields (next 12 months) of all dividend paying stocks under review: **3.2%**

26 Weeks Ago	Market Low 10-9-02	Market High 7-13-07
2.1%	2.4%	1.6%

The Estimated Median Price Appreciation Potential of all 1700 stocks in the hypothesized economic environment 3 to 5 years hence: **145%**

26 Weeks Ago	Market Low 10-9-02	Market High 7-13-07
70%	115%	35%

Source: *The Value Line Investment Survey*

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measured in terms of price-to-earnings ratios (even on lowered expectations), price-to-cash flow, balance sheet strength for many corporations, or yields, the stock prices of a large universe of companies are plumbing new lows. One of the more interesting statistics shows that the yield on the S&P 500 is currently 3.2%, a level well above typical market lows of approximately 2.8%. Also, the price-to-book valuation level is now under 2.0x, a level not seen in 20 years. Another interesting set of financial yardsticks is published weekly by *Value Line* in which they measure the median P/E ratio, yield, and anticipated three- to five-year price appreciation for the 1,700 stocks in their main research universe. To put these figures into perspective, if you take a look at the *Value Line Appreciation Potential*, based on 10/24/08 prices, the average stock is being valued at levels that have only been reached on two other occasions in the last several decades—1974 and 1982, both of which proved to be the best buying points of the last four decades.

We can be sure of at least two things in this world, death and taxes. We cannot be sure about what the future is for bond and stock prices in the near to intermediate term, except to say that they will fluctuate. Looking beyond the volatile period of today, the prospect for very good future rewards is, if not certain, characterized as highly probable. Ex-hedge fund manager and CNBC market commentator (entertainer?), Jim Cramer, has urged investors to "Sell, sell, sell." Perhaps he will be right. Doubtless, he will repeatedly qualify his remarks. On the other hand, a more balanced individual, Warren Buffett, recently offered another view in an oft-quoted op-ed piece in *The New York Times*:

> *Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10, and 20 years from now.*

With that said, there are definite signs that the battle between the forced selling of the hedge funds and the smart buying of the value-conscious investor is starting to balance out and will soon turn to the positive side of the ledger. We believe investors who stay the course or make investments today will be amply rewarded well within five years. It is always interesting to read about history, but it is not always pleasant to live through certain historical periods. We believe living through the next few years will be more enjoyable than the recent past, which historians will label the Great Unwind of the Financial Markets.

Roger E. King, CFA
Chairman and President

The year 2008 marks KING's Twenty-Seventh Anniversary. Our professional staff includes investment managers, security analysts, and other specialists qualified to meet the needs of our individual and institutional clients. We are committed to creating wealth for our clients in the long term.

Over the past twenty-seven years, we have successfully navigated through both good and challenging markets by adhering to a discipline of value investing geared to evaluating ever-changing data and markets.

Our philosophy focuses on the valuation of businesses and their economic worth as measured through cash flow and not accounting artifice. Our work in equity and balanced accounts, which includes fixed income instruments, helps each type of account. Many excellent fixed income opportunities develop as a result of our research in equities, and vice versa.

We eschew "market timing" as theoretical nonsense divorced from the real world of investment decision-making and investing. Cash will accumulate in client portfolios when we do not find stocks that meet our selective criteria.

We are confident that the knowledge, experience, and dedication of our investment team, and the application of a disciplined process which has worked successfully over long periods of time, will continue to reward our clients in the years to come.

SOURCES FOR THIS ISSUE

Bloomberg L.P.; Hays Advisory, LLC; Hedge Fund Research, Inc.; *The New York Times*; *The Richebächer Letter*; *The Value Line Investment Survey*; *True Wealth*; S&P Research; Miller Tabek + Co., LLC

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