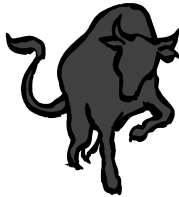


Index	Quarter Return	YTD Return
DJIA	-6.9	-13.4
S & P 500	-2.7	-11.9
NASDAQ	0.6	-13.6
Russell 2000	0.6	-9.4
MSCI EAFE	-2.3	-11.0
Lehman Bros. Aggregate Bond	-1.0	1.1
Consumer Price Index	2.5	4.2



Second Quarter Investment Commentary

The first half of 2008 dramatically reinforced the idea that over the short term, investments are generally unpredictable. In the publicly traded markets, a sharply negative first quarter was followed by two months of positive returns but the selloff resumed with a vengeance in June. The S&P 500 dropped almost 3 percent for the quarter and was down 12 percent for the first half of the year. The markets offered few places to hide, as both U.S. and foreign stocks had a rough June. All indexes on a worldwide basis were down 2 to 3 percent for the quarter and 10 to 13 percent year-to-date. Some may find it surprising that foreign stocks have been hit so hard since the financial sector problems seem to be predominantly in the U.S., but we are not surprised. The global economy is highly integrated and stock market correlations tend to rise in stressed situations. Bond indexes were down just over 1 percent for the second quarter and had a total return of 1 percent so far this year.

The Current Environment

In most areas of the country, housing prices continue to decline. A few years ago when real estate was hot, we frequently cautioned clients about over-investing in real estate. Now with prices declining significantly, clients want to decrease their positions in “speculative” real estate and see their primary residence as a place to live rather than a fail-proof investment. In the late 1990s, we frequently cautioned clients about getting too aggressive in the stock markets and, after the declines of 2000 to 2002, many clients wanted nothing to do with stocks, only to miss a 70 percent return from 2003 to 2006.

The point of all this is to remind you that every legitimate investment asset class goes through cycles. The successful investor adjusts to economic and market environments and retains a sense of perspective while relying on investment discipline to avoid becoming panicked by short-term concerns and paralyzed by longer-term uncertainty. Like it or not, we are always

making decisions in an uncertain world and this will not change. However, our experience in past market cycles and our analysis of the current investment environment leads us to several important conclusions. First, as we have written, we expect equity returns to be lower than the historic 10 to 11 percent range but, from current levels, we would expect stocks to outperform most asset classes. In other words, over the next few years our general expectation is for a low return environment for most asset classes. Secondly, our clients need to invest somewhere, and big market downturns invariably present opportunities – without them, we would not have the chance to identify some tactical allocations that have added value to your portfolios in the past and should do so in the future.

The Road Ahead

As we have said in recent commentaries, this is one of the most challenging investment environments we have ever faced. We expect this to continue to be the case at least for a while. In a few years, we shall look back at this time as one that redefined the landscape of the U.S. financial system. Such a process is always chaotic as it is driven by “crisis management” reactions. Given our expectation of low returns, we have added incentive to look at alternative investments other than mainstream asset classes. In the past, for example, we have committed to commodities, energy, real estate investment trusts and others – all areas that have added investment returns to our portfolios. Despite our expectations for a challenging environment, we believe that we will add value from both our strategic asset allocation and manager selection decisions. We are, for example, continuing to explore everything from absolute and long/short funds to funds investing in alternative energy and global infrastructure building.

In terms of our current portfolios, we think our over-weighting of large company stocks relative to smaller companies and our diversified positions will add value relative to neutral portfolios. We have taken a much more conservative stance over the last year and, for example, our most conservative clients have the largest cash positions that we have ever held as a firm. Probably our biggest concern is the difficulty all parties (including financial institutions and investors) seem to be having in confidently analyzing the magnitude of losses from subprime loans and other leverage and, therefore, the short-term risk to the economy and the markets. This raises our concern about the possibility of further declines in the stock market.

However, many of the fund managers we most respect feel they are buying shares of high quality companies at bargain basement prices. Consequently, even though the overall market does not look compelling to us from a top down perspective, the current economic and market turmoil appears to be creating significant return opportunities at the individual stock level. Indeed, it is often when the overall trend is negative that disciplined investors can build a portfolio for long-term outperformance by taking advantage of opportunities created by these dislocations. To quote Sir John Templeton, one of the world’s great investment visionaries who recently died: *Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.* This requires patience and the ability to weigh long-term analysis above short-term fear, but that is what distinguishes successful investors.