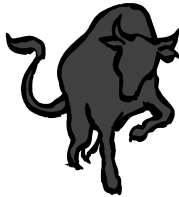


Index	Quarter Return	2008 Return
DJIA	-18.4	-31.9
S & P 500	-21.9	-37.0
NASDAQ	-24.6	-40.5
Russell 2000	-26.1	-33.8
MSCI EAFE	-20.3	-45.1
Barclay's Aggregate Bond	4.6	5.2
Consumer Price Index	-3.9	-0.1



Goodbye to 2008!

For investors, 2008 was a once-in-an-80-year train wreck. The year was arguably the most painful in modern investment history and it is, without a doubt, the most painful experience for any investor who is alive today. There was not a single stock market index in the world that was not down significantly, and most every asset class was down for the year. This was also true for investments in private equities, real estate and hedge funds.

In reading our prior ReViews, we expressed concern as far back as 2007 based on what we saw as a looming credit crisis. We started taking defensive measures but, quite honestly, did not see the near unthinkable and catastrophic meltdown that unfolded during the last quarter of 2008. The reasons for the economic dislocations are now well chronicled but were, simply put, due to 20 years of unusually high economic growth driven in large measure by a worldwide credit bubble. Over the last 20 years, the U.S. economy grew by about \$11 Trillion while consumer debt grew by about \$22 Trillion. This provided a powerful boost for economic growth but built up debt to toxic levels. In order to fuel this debt, the brain trusts of the financial world found ways to promote this debt by leveraging this debt up to 30 times equity. Furthermore, Fed actions promoted cheap financing through low interest rates. This leverage and concurrent debt is tolerable in times of unbridled economic growth, but eventually cycles come to an end and, boy, did it ever in 2008.

As financial conditions worsened throughout 2008, we continued to become more and more defensive and, thus, our clients suffered declines significantly less than most, but losses nonetheless.

2009 and Beyond

Clearly, we are in the midst of a severe recession. Consumers and financial institutions are being forced to adjust to a new reality in which they finally have to pay down debt. So, not only will debt be wound down, but credit will not be easy to get at least for the next several years. All this means that when confidence eventually does come back to the economy, economic growth will be much lower than we saw in the last 20 years. Additionally, the restructuring of our nation's financial institutions remains incomplete. So, while we appear to have avoided a financial Armageddon, the duration and magnitude of the economic downturn is still anyone's guess. Economists, in general, have been as clueless as anyone – every six months for the past 18 months proclaiming economic improvement to be “just around the corner.” Policy makers have made it clear that they will do whatever it takes to support the economy, yet credit markets remain dysfunctional and the all important housing market remains highly stressed. Eventually, Obama's stimulus plan will be helpful to the economy, but the impact will occur slowly.

Weighing the Evidence for the Future

We are morphing towards a world where government is being substituted for the invisible hand, where regulation trumps capitalism, and where corporate profits are no longer a function of leverage, cheap financing and low tax rates. The economic recovery in 2009 and 2010 may be slower than what many believe, and unemployment could well go above 9%. This could easily lead to volatile markets (though less volatile than this past fall) and the possibility that many investment classes will experience wild performance swings. Rallies could last for months with sizeable returns followed by sharp pullbacks.

Despite the near-term concerns and caution, we think the weight of evidence suggests that investors are very unlikely to get hurt owning equities over the next 5 to 10 years and are likely to reap decent returns. Still, with a much higher than normal level of uncertainty, we will continue to manage our clients' money in larger, more secure companies. We began to tactically reduce foreign stocks over a year ago and will slowly move back to a normal weighting. Bonds (except for Treasuries) are currently providing a decent return. In the case of financial related bonds, the returns are very high (GE Capital at 8+ %), but they are also subject to an unusually high level of risk. The same is true with real estate, emerging markets, and commodities in general.

As always, the riskiest asset classes will provide the greatest return once the economic system shows signs of improvement. It is hard to know when the various forces that are being brought to bear will have a meaningful impact and, thus, economic risks still remain high. But, just as huge losses often come out of a clear blue sky, huge gains usually arrive when the world seems darkest. We will gradually and steadily increase the risk level in your portfolio through tactical additions to various asset classes only as we build confidence that the economy is on the mend. We continue to believe that the economy and the markets will ultimately improve, but it will be a slow process that will likely test the patience of investors in the year ahead.