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~ OUR CHIEF INVESTMENT OFFICER'S COMMENTARY ~

The first quarter of 2009 tested the faith and confidence of investors. The dismal fourth quarter earnings reports and strident politics weighed heavily on the markets. The mood was so gloomy that equities tested their November lows before the current rally began early in March.

Behind the scenes, however, significant progress has been made toward resolving the credit crisis. This is important because we can't recover from the recession until we restore the financial system. The credit crisis is a really big deal and the government is attacking the problem massively on many fronts. The principal players are the Federal Reserve Bank, the Treasury Department and the Federal Deposit Insurance Corporation. **Monetary easing and fiscal stimulus is being coordinated on a global basis**.

While there is much debate about individual programs, and the speed with which they were implemented, there is no doubt that **we are beginning to see the results.** In aggregate, these programs are massive, unlike anything any of us have seen before. Still, we haven't broken the gridlock in the financial system and lending is still sluggish.

The Treasury's newest program is designed to address this issue. If the problem is clogged balance sheets and insufficient capital to support credit growth, **the Public Private Partnership Investment Program (PPIP) should allow for the sale of substantial amounts of toxic assets at prices favorable for the banking system.** While the implementation and details of this program are complicated and still to be worked out, we think it holds the promise of restoring viability to the banking system.

This program, on the heels of renewed Fed easing (through Treasury and mortgage bond repurchases) and early signs of better economic momentum are consistent with better financial markets in general.

If this sounds too optimistic, I would caution that our forecast is longer term. The economy declined about 6.5% in the fourth quarter, in real terms, and the corporate earnings declines produced by this drop chilled the market. We estimate that GDP in the first quarter of 2009 declined almost as much, maybe 5.5%. Second quarter should also see a decline, of about 1%, before the economy starts to show signs of growth in the second half of the year.

This is the kind of environment that will produce considerable volatility in the financial markets with precious little time to get invested when the market begins to anticipate better days ahead. There is a saying that a new market cycle begins by climbing a wall of worry. Given the height of this wall, there will be times when it may appear insurmountable. **It is best to remember that these are the times that generate the best returns from stocks.**

Fixed Income Market

The first quarter of this year saw continued volatility in the bond markets. Investors reacted to news of further stress in the economy and the financial system, along with the massive government response. **Credit markets remained relatively frozen when compared to more normal times.**

However, buying interest in corporate and municipal bonds started to pick up slightly. This was probably due to the very attractive yields relative to those of U.S. Treasury bonds and money market funds, as well as some increase in confidence that the government programs are beginning to have an effect. Yields on U.S. Treasury securities actually rose slightly (and prices dropped) during the quarter, as money began to flow back into the stock market and other sectors of the bond market. At the same time, yields on high-quality corporate and tax-exempt bonds dropped a bit.

Even with this narrowing of the spread between Treasury yields and those on other bonds, yield differences remain historically high. **Therefore, we continue to think that high-quality corporate and tax-exempt bonds remain good values relative to Treasury securities**. U.S. agency bonds also offer some pickup in yield.

Because massive amounts of government stimulus run the risk of become inflationary down the road, **we are keeping maturities relatively short.** Treasury Inflation Protected Securities (TIPS) can also still be used, although their pricing has now begun to factor in a bit of inflation after the strong performance of these bonds in the quarter.

International Market

Massive fiscal and monetary stimulus, taken by countries around the world to shore up their economies, has started to have an impact. Although progress varies from country to country, early signs of economies starting to stabilize have surfaced in select parts of the world as evidenced by the recovery of their respective equity markets. We stated on our previous newsletter that we were anticipating Asian economic growth to improve with China leading the way, and in fact China has started to show encouraging signs of growth.

During the quarter, China's urban fixed-asset investment jumped 26%, new bank lending quadrupled and vehicle sales rose 25%. It seems China's 4 trillion RMB ($585 billion) stimulus package is working as evidenced by the 30% gain (YTD) in the Shanghai Composite Index, the best-performing index among 89 benchmark measures tracked worldwide by Bloomberg. Head of the Chinese central bank has also said **"the slump in the Chinese economy is basically under control."**

In addition to China, other Asian countries have shown improvement. We see negative earnings momentum turn positive, especially within areas such as electronic technology. Over the past four to six weeks, Taiwan has begun to see increased demand from end-markets as order flows have consistently improved. Idled manufacturing capacity is being brought back on line.

Our main concern in Asia still remains Japan; its currency shot up 23% in 2008, making it more difficult for Japanese companies to compete in an already harsh market environment. The Finance Ministry of Japan said the country's overseas shipments plummeted 49.4% from a year earlier; we are concerned that a prolonged slump in overseas markets will have a detrimental effect on countries which rely heavily on exporting.

We see strength in commodity producing equity markets around the world; **Latin America, a region rich in natural resources, has enjoyed a rise in its equity markets**. The price for copper has climbed to the highest level since November due to demand from China. In addition to our belief that demand for commodities will increase as infrastructure developments expand, an added benefit is that commodities are seen as a hedge against inflation. With record amounts of monetary expansion, eventually we expect to experience a more inflationary environment.

In Europe, weak economic data and a significant drop of currency value have fanned our concerns that Europe's recession might deepen. At a recent bond offering, the U.K. failed to find enough buyers as only 1.63 billion of the 1.75 billion pounds of bonds were sold. One has to worry that if the strategy is based on borrowing to stimulate the economy, what would happen if no one is buying their bonds.

Even considering the under-subscription of its bond offering, we believe the country is at least moving in the right direction. Recent monetary support by the British government with Royal Bank of Scotland and Lloyds Bank require that the banks boost lending. The banks are now under an obligation to lend out 50 billion pounds; **hopefully, this injection of cash will help their economy in the coming months.**

When considering the amount of money governments around the world have committed to solving the financial crisis, there are bound to be some positive results, but it may take time for the effects to come to full fruition. Some countries will come out of the recession earlier and some later. The recent surge of equity markets around the world, seems to indicate an increase in risk appetite. However, we continue to stress a consistent and disciplined approach toward investing. In the mean time, **we remain positive toward Asian and Latin American companies, while waiting for the situation in Europe to improve**.