

January 8, 2009

Client
Address
City

Dear Client;

“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us”. A partial, cut up quote from Charles Dickens seems the best way to sum up 2008.

The best of times because all of the accounts I manage outperformed the major domestic and international stock benchmarks on a quarterly, annual and 10 year basis. The worst of times because all of the accounts I manage finished the quarter and the year in negative territory, in many cases substantially so. Over the last decade all of the accounts I manage are positive but not by so much as to be the least bit satisfying. In short, I have nothing to apologize for, but nothing to brag about either.

In a time when things could, and seemed to, be doing so well, the building and bursting of the credit bubble has knocked the markets and the economy for a loop. Our economy has survived these types of disruptions before, and the actions taken by various government entities to date suggest we will come through this one, but it will take time. Make no mistake, we moved from a market to a centrally planned economy in the latest quarter, with the hope that 2009 will see us swing the other way, and with a firmer foundation.

The credit and equity markets have improved of late while the economy continues to deteriorate. This is not an unusual cycle of events, but the question remains, will the economy stabilize in time to support the markets or continue to decline and create another down leg for the markets. If I knew the answer I could make us all rich beyond our wildest dreams. Instead I will take the same approach I always take; plan for the best but prepare for the worst while taking advantage of opportunities that present themselves and avoiding the problems as best possible.

I continue to move capital from low yielding money market and maturing bank certificates of deposit to municipal bond funds, two to five year investment grade A to BBB corporate bonds while adding to stock positions on market pullbacks in a measured fashion. Continued market volatility will make this process more stressful in the short run but more rewarding in the long run.

In closing, I am reminded of the story about twin boys, one a pessimist and one an optimist that respectively received a pony and a pile of manure for Christmas. The pessimist was unhappy as he was concerned that the pony would generate manure he would then have to clean up while the optimist was happy because he assumed that with all that manure there had to be a pony in there somewhere. Considering how challenging the last 10 years has been for investors I can only hope that the next 10 years will be a breeze.

Please review the back of this page for the performances of major investment benchmarks over a variety periods for comparison to your portfolio performance detailed in the attached year-end report. Also, feel free to give me a call if you want to discuss your portfolio before I have a chance to contact you.

Best regards,

Peter V. Hedberg