The Outlook

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As of February 27, 2008		
Index	**YTD % Change***	**Market Value**
Dow Jones Industrials	-3.77%	12,694.28
S&P 500	-5.72%	1,380.02
Nasdaq Composite	-11.25%	2,353.78

*YTD % Changes use the index with dividends

The global financial system is operating in uncharted waters while the world faces continuing global supply and demand imbalances. This has created a distinct and longer-term disequilibrium, which presents a major opportunity to build capital. We do not believe the power of this phenomenon has been fully recognized by market participants. **The three drivers of our investment Outlook remain (1) the ongoing weakness and uncertainty in the global financial markets, including the weakness in the dollar, (2) a continuing powerful global economic growth story and (3) the earning power and undervaluation of key assets resulting from a fundamental shift in the global economy.** From a portfolio management perspective, a two-tiered market continues to develop as evidenced in the most recent fourth quarter earnings reports. In participating in dozens of company earnings conference calls, we have heard executives time and time again paint a clear picture of industrial companies benefiting from global growth. However, banking, financial and related companies continue to suffer and are exposed to difficult uncertainties.

S&P 500 Earnings and Global Growth

For the first half of 2008, S&P 500 earnings are expected to be flat in comparison to a year ago. For the fourth quarter of 2007, S&P 500 earnings were down 21%. If we exclude the financial sector, S&P 500 earnings in the fourth quarter of 2007 actually rose 12%. As credit problems continue to worsen, as we have seen with rising delinquencies for credit cards, auto loans and student loans, there will be a negative impact on S&P 500 earnings in 2008. The market in general, under these conditions, should continue to be volatile.

As reflected in the S&P 500 earnings, the corporate beneficiaries of global growth have been doing well, and we do not anticipate this will change any time soon. Our analysis of last quarter's earnings has reinforced our view that the global emerging economies and their infrastructure needs will remain the major drivers of economic growth. We expect this global growth to be in the range of $1.5 trillion. **Very specific sectors of the S&P 500 are prime beneficiaries of this growth and according to our research are demonstrably undervalued based on earnings, cash flow and asset valuations.**

Global Financial Markets and the Dollar

Global banking and financial institutions have been experiencing losses running in excess of $150 billion as lenders have had to write down assets on their balance sheets for which no buyers could be found. These losses are a product of the problems in the credit markets, which have continued to be a pervasive negative influence on the global economy. **Losses taken so far by the banking system are a reflection of a weak residential housing market, unwise lending practices and a slowing U.S. economy compounded by the systemic failure of highly complex derivative products.** What additional financial losses will emerge as the economy slows further remain to be seen.

It is for this reason that Federal Reserve Chairman Ben Bernanke has been so aggressive in reducing interest rates and injecting liquidity into the system. The 150 basis point reduction in the discount rate and the federal funds rate since September 2007 has occurred over an extraordinarily short period of time. Originally it was felt that the Federal Reserve was acting too slowly, but the rapid shift in policy has made up for lost time. **The Federal Reserve, however, is in a difficult position. They are being forced to lower interest rates to moderate the economic downturn at a time when the inflation rate is still rising.** Adding to Chairman Bernanke's dilemma is the fact that finally the Chinese currency is appreciating at a more rapid rate versus the dollar, something that the U.S. government had been encouraging China to do prior to today's problems. But as a result of this, the cost of imported goods from China is rising and will now add further to our inflation rate. **The U. S. inflation rate, because of rising energy, raw materials and agricultural costs has just taken its biggest jump since 1981. Still, the Federal Reserve appears to have little choice but to reduce interest rates once again and to continue to inject needed liquidity into the system, which will tend to further weaken the U.S. dollar.**

Notwithstanding the inflation pressures that are building, there is a high probability that interest rates will be reduced further by the Federal Reserve from today's 3% to 2.5% and possibly lower over time**. It would not surprise us to see a 2% interest rate structure emerge this year.** Additional credit market problems continue to eat away at the banking system's capital, which reduces their ability to lend money and puts pressure on the Federal Reserve to reduce interest rates still further. Under former Federal Reserve Chairman Greenspan, rates were dropped to 1% in reaction to the technology and dot-com implosion and stock market decline in the early 2000's. We believe that today's economic problems are significantly more difficult and much more extensive, requiring the Federal Reserve to repair bank capital as quickly as possible.

The European Central Bank, whose priority is fighting inflation, has also had to contend with similar financial problems and has injected vast amounts of liquidity into their banking system. Nevertheless, their currency, the Euro, has been rising versus the dollar, hurting their exports and causing their economies to slow. Notwithstanding this, the European Central Bank, unlike their U.S. counterpart, appears to be unwilling to lower interest rates for fear of stimulating inflation.

The enormous amounts of monetary creation since last August have put upward pressure on the prices of tangible assets such as raw materials, energy, agricultural products and precious metals. In addition, the secular trend of demand for all of these products continues to rise as global infrastructure needs and rising living standards for 3.5 billion people continue apace. Under these conditions, the disequilibrium caused by rising demand and supply shortages should continue for an extended period of time. It cannot be determined how much prices need to rise in order to re-establish equilibrium, or to put it another way, what prices need to exist in order to bring supply and demand into balance. However, it is our view that this condition could last for many years. We are describing a secular trend, not a cyclical one, where growing demand and supply imbalances are expected to continue as global living standards rise.

Agricultural Products and Food Inflation

The serious shortage of agricultural products caused by developing nations' increasing demand for wheat and other grains in combination with weather and droughts has pushed grain prices to record levels. This demand in combination with higher energy costs is putting significant upward pressure on price inflation and is affecting retail sales as consumers have less to spend on other goods and services.

Agriculture officials last month forecast that U.S. wheat stocks will be shrinking to their lowest levels in 60 years. The U.S. is the largest exporter of wheat, and we have already made commitments to sell more than 90% of what we normally export in a year. It should therefore be no surprise that wheat prices have reached record levels. In addition, both Russia and Kazakhstan have indicated they would raise export tariffs significantly to keep their domestically produced grain at home. It is very possible that we will be overcommitted and will have to import wheat at higher prices to meet the remaining part of our contract obligations.

Over 37% of the United States is in severe to extreme drought conditions and according to the Federal U.S. Drought Monitor at least 57% of the West and 76% of the Southeast are suffering from moderate to exceptional drought conditions. Clearly, this will also continue to put upward pressure on grain prices. Not only is wheat in short supply, but rice, which is a staple food for half the world, has also seen significant price pressures because of shortages. We expect a protracted period of food price inflation to affect the U.S. economy. To make matters worse, Saudi Arabia has announced that they will cease wheat production by the year 2016 due to significant water shortages. **As a consequence of these higher prices, U.S. farm income is expected to hit a record $92 billion this year, up from $88.7 billion in 2007. This will have an impact on demand for farm-related products, including fertilizer, seed and farm equipment.**

Precious Metals & Industrial Materials

Global demand for precious metals has soared and supplies are constrained. The gold market has been particularly strong and since January of 2004 has risen $525 an ounce to its present price of approximately $950 an ounce. Inflation and recession are of increasing concern, the dollar remains weak and institutions are seeking gold and commodities as an alternative investment class for portfolio diversification. Furthermore, the SEC and the Commodity Futures Trading Commission are attempting to reconcile differences in order to establish an options market on gold for investors. These options would have the gold ETF (Exchange Traded Fund), which is backed by gold, as the underlying asset. Should the regulators allow options on gold ETFs, one of whose symbol is GLD, we would expect increasing demand for gold to occur.

While the dollar has depreciated against all major currencies over the past several years, it has also depreciated against both hard and soft assets. Just last week, iron ore prices were raised 65% by the major producers, which follows double digit price increases over the past several years. **The prices for industrial commodities, as indicated in our last Outlook, have risen sharply in terms of dollars. This has been a function of considerable demand**

increases for industrial commodities in Asian economies, particularly China. The growth of the emerging economies should continue for many years

and investment opportunities resulting from this will remain significant. One would be hard pressed to find any materials in any category not rising in price as a consequence of global growth and U.S. dollar weakness.

Infrastructure

Global infrastructure needs have been well-observed, but a new element has entered the picture over the recent past. Major electric power generation and transmission problems in South Africa will require considerable investment and take years to correct. Electric power shortages have resulted in the partial shutdown of the mining industry in that country. **Years of neglect of the South African electric power infrastructure have finally caught up to them as world demand for South Africa's mining output has continued to increase. One of the most critical materials needed to correct chronic electric power shortages is copper wire, but the demand for copper wire is not just coming from South Africa's needs; it is fundamental to global electric power infrastructure spending.** Moreover, United States' own infrastructure requirements, including electric power, whose costs were estimated to be $1.6 trillion two years ago, are now approximately $2 trillion due to price inflation and increasing needs.

Restricted supplies of electric power in South Africa, China and Chile (among other regions) suggest many years of power shortages. Severe power problems and the need to cope with these shortages suggest that emerging markets' infrastructure spending could total trillions of dollars over the next ten years**. It is estimated that over $21 trillion in infrastructure spending is needed to serve a population of 3.5 billion people who are demanding higher living standards in developing countries.**

Energy

Natural gas prices have begun rising and oil prices are now at $100 a barrel, more or less, at this time. For quite some time natural gas prices were in the $6 to $8 range per thousand cubic feet (MCF), and are now in excess of $9 per MCF. Oil demand has been a function of global growth, with China's needs now in excess of 7 million barrels per day. China's net oil imports rose 15% last year. Their total demand increased by 7.3% and imports accounted for 46% of their consumption. **We expect continuing increases in demand for oil, natural gas and coal outside the U.S. It is interesting that many of the companies benefiting from this are still selling at significant discounts to their real asset values in spite of recent market appreciation.**

Conclusion

The financial opportunities that we see remain quite exciting to a serious investor. **Global supply and demand imbalances should not be underestimated for either their potential impact or their duration. The critical shortages of agricultural products, raw materials and energy that exist today will probably remain in place for many years to come.** The U.S. Federal Reserve and world Central Banks will continue to face significant challenges relating to inflation, economic growth and the weakening U.S. dollar. One should not lose sight of the scale of the strategic investments being made globally to build and maintain the world's infrastructure. At the same time, the valuation of pure financial company paper assets remains difficult at best. Many financial companies will have to raise capital, which will dilute current shareholder equity. In addition, many of these companies have assets that may be overvalued, and charge offs against these assets have yet to be to be taken and remain unquantifiable. **In the face of these competing forces, the equity market continues to present opportunities to build capital and preserve wealth.**