



## MARKET COMMENTARY AND OUTLOOK:

As the second quarter ended, the domestic equity markets were revisiting the lows set in March. Surging increases in the cost of energy continued to drain consumer strength and confidence and call into question forward estimates of corporate profitability. Renewed concerns about the strength of the financial system also pressured the market, as the adequacy of banks' capital reserves were scrutinized amidst a still weakening real estate market. These are only the headline issues. The current environment is extraordinarily complex and remains quite dangerous, so identifying simple investment themes to comfortably and profitably exploit is a challenging goal.



GORDON T. WEGWART  
Chief Investment Officer

The good news for the Core Model is continued portfolio stability to date with a small gain in value for the quarter. We have thus far weathered the upheavals by continuing to implement a strategy built around uncommonly broad asset class diversification complemented by targeted short positions. Our objective is to identify areas of relative strength amidst the turmoil that may contribute to diversification in the short run and

become strong growth opportunities when the market ultimately turns higher.

In that regard, we have maintained a strong and profitable allocation to gold and precious metals for several years, and we feel there is further upside potential for numerous fundamental reasons. Alternative energy has sharply corrected after a strong performance in late 2007, but we believe this sector holds significant opportunity moving forward. More recently, we began early in the year building a position in an exchange-traded fund comprised of water related stocks, which have demonstrated much greater strength than the broad market coming off the March lows. We have also rotated some of our capital into mid-cap growth for the upside potential we anticipate in a market rebound. As the quarter ended, we began an allocation to health care, which is beginning to show stability on a relative basis and appears positioned for long term growth.

*“ While working to limit risk, we will seek good risk/reward opportunities as we continue to manage for relative stability in the short run and strong total returns over the longer term. ”*

The foreseeable future could be a grind as the economy works through a daunting set of problems while the markets appear to be conclusively trending lower in the intermediate term. Although our task in times like these can be laborious, we are optimistic about the degree of profitability that may lie ahead if we handle this period well. While working to limit risk, we will seek good risk/reward opportunities as we continue to manage for relative stability in the short run and strong total returns over the longer term.

For More Information:

## TARGET ALLOCATION BY ASSET CLASS

44.0%	Equities - Domestic & Foreign
16.5%	Gold, Energy & Commodity Related
3.5%	Foreign Currency
10.0%	Equities - Short (Leveraged 200%)
6.5%	Bonds - Foreign
12.0%	Bonds - Short
7.5%	Cash

## ABOUT OUR METHODOLOGY:

Effective investing is a process of considering risk and potential reward and seeking to overweight the odds of success while limiting the downside. Our portfolios thus reflect diversification across only those asset classes we currently believe to hold superior risk/reward profiles.

Although the time horizon of our core positions is not short term, we constantly monitor the marketplace in order to discern and adjust to changes in market dynamics and risk/reward outlook. As a result, even in areas we deem to be major long term themes, the size of allocations may fluctuate to reflect a changed shorter term outlook.

We will also seek certain shorter term opportunistic investments, but will do so only when consistent with our investment discipline.

Capital preservation is of utmost importance. This may lead us to reduce the size of investments in more volatile asset classes in response to short term concerns, but we will not eliminate them completely if our long term investment thesis remains intact.

We believe our methodology and investment discipline will serve our clients exceptionally well in all types of markets and over the long term, while providing us with the needed flexibility in an environment that may become increasingly volatile.

All investing involves market risk and possible loss of principal, and past performance doesn't guarantee future results. Additionally, asset allocation doesn't assure a profit or guarantee against a loss in a declining market.