



MARKET COMMENTARY AND OUTLOOK:

Since early March, a powerful market rally has helped temper some of the pain of last fall's epic decline. Buoyed by early glimmers of stabilization in the credit markets and already priced for disaster, the market turned and, characteristically peering into the future, has been encouraged in its climb by a progression of data suggesting that some genuine economic improvement might be near at hand. The market at present seems capable of continuing its upward thrust so long as liquidity and international currency flows remain accommodating, but any notable breakdown in the trend toward stabilizing economic fundamentals could easily turn market psychology sharply to the negative again.



GORDON T. WEGWART
Chief Investment Officer

Cognizant of these factors, we have continued to carefully target attractive longer term themes and shorter term opportunities for growth while simultaneously maintaining respect for the impact of headwinds that remain daunting. Among them are continued expansion in unemployment, impending waves of new foreclosures, rising credit card delinquencies, sobering state budgetary challenges, critical financing shortages facing commercial real estate, and the uncomfortably real potential for further systemic

shocks to a deeply weakened world economic system.

The expanded equity exposure we had constructed from March to mid-

June helped the portfolio participate very meaningfully in the rapidly surging markets of third quarter, with solid contributions delivered by gold and energy related positions as well. To maintain a desirable risk/reward balance, we elected to forego significant expansion of our positions during the quarter, and profits were taken selectively from most holdings over the final six weeks to maintain this discipline.

Those who are bullish will say that the market is priced too severely for an improving economic outlook, is very attractive for a number of technical reasons, and always climbs a "wall of worry" (because there is rarely significant opportunity in the absence of material risks).

Those who are bearish will say the market has rebounded too far too fast, is naively underestimating the impact of a global deleveraging process of stunning proportions, and risks further severe downturns before we legitimately rebuild the foundations to move progressively higher.

Neither case can be responsibly ignored, because, more so than during most periods of our history, it is impossible, especially in the intermediate term, to know the outcome to be wrought from competing currents of massive scope amidst the ongoing unpredictability of game changing government inputs.

In such an environment, our approach to management seeks not to stretch for maximum gain but rather to optimize the probability of acceptable growth as we continue to pursue discernment into the challenges ahead.

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TARGET ALLOCATION BY ASSET CLASS

51.5%	Equities - Domestic & Foreign
16.8%	Gold, Energy & Commodity Related
0%	Foreign Currency
9.5%	Equities - Short (Leveraged 200%)
8.0%	Bonds
9.0%	Bonds - Short
5.2%	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.

For More Information:

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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.