



NICHOLAS HOFFMAN AND CO.

INVESTMENT COUNSEL

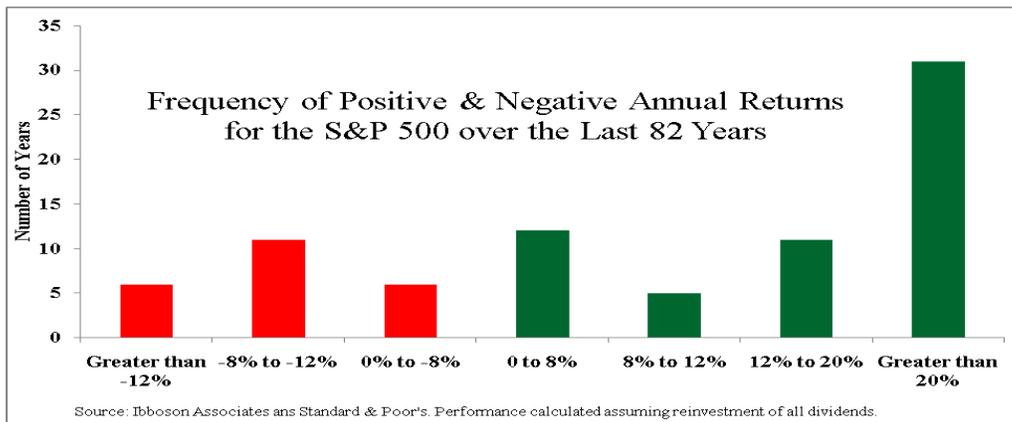
Dear Clients and Friends,

July 16th, 2008

The “Greatest Story Never Told” was the headlines in an article I came across recently, that I believe helps to provide some perspective on current economic conditions. In spite of the debate about whether our economy is in a recession and weakening public confidence the fact of the matter is that we have lived through and continue to live in the greatest period of prosperity in human history. Over the last 25 years, more wealth has been created, more people have been lifted out of poverty, standards of living have been elevated more dramatically, and the quality and length of life have improved, more than ever before.

While the growing economy of this nation has resulted in considerable gains in wealth, all over the world developing countries are also enjoying the broadest expansion of wealth in history. This development has resulted in expanding global stock markets and opportunity. Growth and progress do not typically come in a linear pattern but with periods of volatility and uncertainty, and we are clearly in one of those periods as I write this letter. Our goal is of course to help our clients manage through these volatile times and we do this through diversified portfolios and by adhering to a discipline that will accomplish both short and long-term goals.

The first half of 2008 has been one of the worst ever for stock market investors. Volatility was markedly higher and the significant gains of April and May were quickly erased the next month, when according to *BusinessWeek* the Dow experienced its worst June performance since 1930, down 10% in a single month. The second quarter saw the S&P 500 down -2.7%, international equity markets as represented by the EAFE Index were down -1.9% and yet the Russell 2000 managed a small gain of 0.6%. Even the Lehman Aggregate Bond Index was down -1.0% for the quarter but is up 1.1% for the year to date. It is well known that the broad equity market goes down on average one year in three (*see chart below*). The markets will be consistent with this pattern if after five straight years of positive returns (2003 to 2007), 2008 ends up with a loss.



It is possible that we may face harder times for a while as the housing and credit problems unravel. For those of us who have memories that go back more than a couple of decades this is nothing new. Indeed, some would argue that we need to go through these economic setbacks in order to build a stronger society and a more resilient economy. For those who are interested I have enclosed a piece by Anthony Bolton one of the most respected money managers in the UK that I think expresses the common sense view of a seasoned investor.

A successful investment approach has always benefited from “time in” the market not “timing of” the market. Of course none of us like to experience painful times but like Anthony Bolton I recommend patience during periods of uncertainty. Moreover I believe this remains the right approach now.

If you have an account with Schwab Institutional we have enclosed our report on the performance and allocation of those holdings. For those with investments in the Diversified Trust Funds held at State Street you will be receiving a similar report directly from them. As always let us know if you have any questions or would like to meet to discuss changes to your financial circumstances.

All of us at Nicholas Hoffman & Company appreciate the opportunity to serve you, especially during these difficult times and thank you for your continued support.

With best wishes,

Nicholas J. Hoffman