NICHOLAS HOFFMAN AND CO.
INVESTMENT COUNSEL

Dear Clients and Friends, January 20, 2009

Goodbye to 2008 and welcome to 2009! Thank heavens the old year is over, but what can we expect from the new one? More specifically what do the events of last year mean for our investment strategies going forward?

Of course the experience of any one year might not be a very good predictor of the next. At the end of 2007, twelve top Wall Street strategists predicted with sound reasoning that in 2008 the S&P 500 would rise between 3% and 18%, with the average expecting it to finish at around 1650! It in fact ended the year at 903 for a negative return of -37%!

Indeed all the broad stock market indexes for 2008 were negative, ranging from -34% for the Russell 2000 to -53% for the MSCI Emerging Markets Index. One of the few perceived safe places was in US Treasuries, where the benchmark 30 year Treasury yield went below 2.5% a couple of weeks ago. The price of these bonds have been pushed up by such a "flight to safety" that many now feel these look like the next bubble to burst!
At current levels stock prices are viewed as modestly undervalued and are priced to deliver reasonably good returns over the next decade (regardless of the nearer-term prospects). While the consensus view is that stocks typically start to recover six months or so before the end of a recession, there is still little confidence that this economy can get going again in a hurry, especially with the huge amount of deleveraging that needs to take place on a global basis.

As we all know the only certainty in life is death and taxes, and I would now also add "uncertainty". This is why we continually focus on these key elements in our work, namely:

- Build a strategy that is tailored specifically for each client and is based on diversification of sectors, capitalization and ensuring there is sufficient income or liquidity to ride out these times in the market.
- Apply the strategy with discipline and consistency and thereby avoid any outside influences or instincts that would suggest we can out-guess the market.
- Implement the core plan with quality investment solutions that are sound and have weathered the test of time.

It is not easy to stay the course as many have discovered in a year of turmoil. In 2008 the markets reached their low just before Thanksgiving. The headline news and sentiment in general were dismal. If that was all you had to go by you might have been forgiven for sensing that the end of the financial world was nigh! But as veterans know, the stock market has its own set of rules. Between the 2008 low of 752 set on November 20th and the end of the year, the market as measured by the S&P 500 rose by 20%.

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I do not know whether 2009 will be any easier and I am sure it will present its own unique set of challenges. What I do know, however, is that our style of investing is not that of a trader, but one of applying a diversified set of solutions in a consistent manner that will allow our clients to accomplish the goals they have set. There have been plenty of studies that have shown that only a handful of individuals are able to successfully "trade" over extended periods of time. Yet for some reason investors are continually tempted to want to try their hand, or follow some new approach when they perceive the tried and true is not working. Nevertheless, we continue to evaluate the options before us and search out new opportunities where appropriate. One area in particular is investment grade corporate bonds, where spreads have now reached such a level that the expected returns appear to be quite attractive relative to stocks, at least in the nearer term. I have enclosed a piece written by Loomis Sayles a well respected bond manager that presents the case for this particular opportunity set.

Few if any have escaped the last year without being humbled in some form or another. We are no exception. Nevertheless, it is during these hard times that I am reminded why we are passionate about the work we do. As hard and at times depressing as the markets have been, we realize that there is nowhere we would rather be than in the trenches with our clients doing what we can in the true sense of "service". I think it is appropriate as we begin a new year to share a story with you of one of the more prominent of my clients whom I had the privilege to serve. I met Judge Elbert Tuttle when he was 95. He was still serving as a judge on the Fifth Circuit Court of Appeals and considered by many as one of the great judicial minds of the twentieth century. I asked him to describe his investment philosophy and appetite for risk as we prepared to manage his portfolio. His answer, with a twinkle in his eye, "I think we should own Growth Stocks for the long haul"! He understood as well as any that as long as these funds were not needed for a longer period of time, ownership of global, successful businesses would provide his family with a higher rate of return than almost any other asset class.

Finally, all of us wish you and your family a Happy New Year! May 2009 bring you happiness, good health and a little more prosperity than 2008!

With best wishes,

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