

Despite the fact that stock market had a turbulent third quarter I am pleased to announce that performance of your portfolio is great! The S&P 500 had a positive return of 2.20% for the quarter but was down almost 8 percent during August. We did not panic but held firm to our investment strategy emphasizing Large Cap growth stocks with positive sales surprises and reasonable cash flow valuations. The market is finally rewarding our hard work and validating our stock selection process entitling you to above average returns.

The events that I wrote about mid quarter came to pass and I am encouraged that the Federal Reserve lowered the Fed Funds Target rate by .50% to 4.75%. They also lowered the discount rate by 1.00%. The fed is doing a great job of helping to alleviate the credit crunch brought on by sub prime mortgages and leverage in the financial system.

The economy meantime is clearly showing signs of slowing. The housing sector is leading the downturn. This is spreading into consumer confidence and is slowing retail spending. Certainly the high price of fuel is adding to these concerns. The employment outlook is mixed but the rate is starting to head up. If this continues we are likely to see further rate cuts by the fed.

The market is applauding the rate cuts. As I have written, lower rates are almost always great for stocks. It lowers the discount rate in stock valuation models making future cash flows more valuable and there is less competition from fixed rate investments. Real estate is in a bear market, and the dollar is on sale. Cash is pouring into stocks and other assets such as gold and commodities.

Our process is a combination of top down economic analysis and bottom up stock analysis. The fundamentals of cash flow, valuation, and growth are the keys to stock selection and hence great long term performance, however, theme selection is equally important. The themes we are employing are global growth, infrastructure spending, aerospace and defense, technology, energy, and agriculture. Your portfolio contains many Large Cap growth companies selling at reasonable valuations with exposure to these themes.

Thank you so much for your continued support. Please call or email if you have any questions about our process or your portfolio.