

Spring - 2008



Dear Unitholders,

The market volatility experienced in the first quarter of 2008 was the highest in 70 years. Over half of the trading days witnessed moves in the S&P500 index of 1% or greater. The primary reason for the market volatility was the well documented world-wide credit crisis brought on by the Sub-Prime mortgage fiasco in the US.

Jeffery Immelt, Chairman and CEO of GE, made this opening comment in his letter to investors in the company's 2007 annual report:

“Bubbles burst and excess ends in an ugly fashion. The easy credit cycles that defined the recent past have given way to a tidal wave of financial crises. As I am writing, banks have written off almost \$150 billion, entire classes of securities have disappeared, and rating agencies have been criticized. This transition – from easy credit to no liquidity – seemed to occur in the blink of an eye.”

The difficult questions that investors have to contend with are:

- a) Is the US in recession and if so, how severe might it be?
- b) Will a US recession lead to a world-wide recession and even slow down the emerging markets of China and India?

And finally,

- c) How will the world's stock markets react to the unfolding situation?

We have argued in the past that the best approach for investors is to ignore short-term volatility. We try to avoid the emotion that comes from a constant stream of negative and sensational headline (eg. Bank X writes off Y Billions, Bank A is rescued after Fed Bailout, etc.).

But once in a rare circumstance (today's credit crisis), our inclination is to prepare for the worst. We don't have a crystal ball but we can read and we do know we are in uncharted territory; witness the market's extreme volatility. The US housing decline hasn't hit bottom and until it does no one knows how bad the ultimate losses on Sub-Prime mortgages and credit derivatives will be. And in addition, the spike in oil prices and dramatically escalating food

prices may force the US consumers to curtail their consumption. The effect will be to deepen a possible US recession.

To prepare for the worst without making drastic changes to the portfolio we have used approximately 7% of the portfolio's assets to acquire ETF's (Exchange Traded Funds) that increase in value as the indexes and/or commodities decline in value. Think of these investments as an "insurance" policy. If we are right and the situation in the US worsens, your portfolio will be protected. If it turns out we were overly pessimistic then we will sell the protection and take a small loss. We believe that this is a prudent that this is a prudent strategy in such a volatile environment.

Eventually, the credit crisis will abate and the US and global economies will start to grow again. We just want to ensure that we will be there to participate.

Sincerely,

STEPHEN D. BARLOW

March 31, 2008