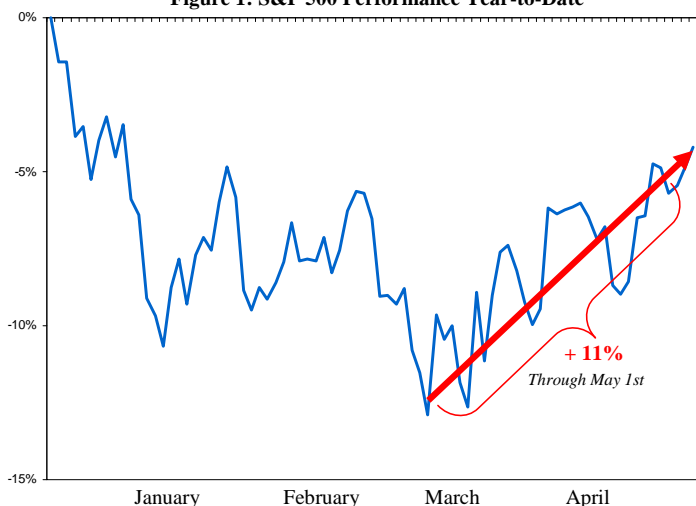


Mr. Market's Wild Ride

Wow! What a manic beginning to 2008! Against a backdrop of disappointing economic reports, financial sector turmoil, and the ongoing efforts of the Fed to use all measures within its power to restore a hint of normalcy to the credit markets, stock investing in 2008 has been a rollercoaster ride to say the least. Right out of the gate, the market registered a double digit decline in the month of January, followed by a brief rally and then an early March drop below the prior low. Then, just when it looked like the bottom might fall out completely, the market turned much more constructive and has in fact bounced meaningfully in recent weeks (Figure 1). It was enough to drive an investor crazy and it would seem hard to fault anyone who decided to get off the ride after the March drop. Unfortunately, an investor who was shaken out at that point has already missed out on an 11% six-week advance in stock values – roughly the equivalent of what the stock market has delivered in the average year over its full history.

Figure 1: S&P 500 Performance Year-to-Date



Exacerbated by changes in the rules for short selling that no longer require an uptick before shares of a stock can be sold short, volatility has steadily marched to levels not witnessed for quite some time. As the tables in Figure 2 illustrate, a multi-year period of rather subdued daily swings in the stock market was rudely interrupted in July 2007 as the fallout of the subprime meltdown starting to take its toll on the markets. Since that time, the uncertainty that has come to dominate investors' collective psychology towards the market has become increasingly evident in the daily price action of the widely followed S&P 500 Index. Thus far in 2008, nearly half of all trading days have witnessed a swing in closing price of greater than 1% from the prior day, and one in five trading days have seen a close at least 2% higher or lower than the prior day. In the course of 1,004 trading days over the prior four year period, only one time did the closing value of the S&P 500 change by more than 3% in a single day. So far in 2008, there have already been four such days.

Figure 2: S&P 500 – Daily Volatility

# of Trading Days w/ Daily Percentage Change >			
Period:	1%	2%	3%
2004	41	0	0
2005	36	1	0
2006	28	2	0
1/1/07 - 07/16/07	19	2	1
07/17/07 - 12/31/07	47	15	0
YTD 08	36	15	4

% of Trading Days w/ Daily Percentage Change >			
Period:	1%	2%	3%
2004	16%	0%	0%
2005	14%	0%	0%
2006	11%	1%	0%
1/1/07 - 07/16/07	14%	2%	1%
07/17/07 - 12/31/07	40%	13%	0%
YTD 08	45%	18%	5%

What has been true for the market overall has been even more true at the sector and industry level. Consumer, financial, technology, and even recently high-flying commodity stocks have all had more than their fair share of sell-offs and rebounds in this young year. The daily swings in the values of stocks within the financial sector in particular have been downright schizophrenic.

Any way you slice it, the market has greeted investors with one whipsaw after another...enough to drive you mad if you are playing the chase and aim to guess the market's next short-term twist or turn. For those investors who are, we wish them the best of luck but warn that the odds are definitely stacked against them. You may ask then what we are doing differently here at DHJ&A in reaction to this highly volatile market environment. The answer to that is very simple, NOTHING! Our stock selection and portfolio construction continues to be driven by the same investment philosophy and disciplined process that we have always followed.

Thus, this presents a great opportunity to remind you about some of the basic tenets that drive what we do and that we feel investors in general would do well to incorporate into their own investment decisions. Very simply, we are bottom-up investors with a focus on the long term. We invest in the stocks of high quality companies with strong fundamentals – i.e. sustainable or accelerating earnings growth and positive estimate revision trends. We strive to be patient buyers of stocks and look to get in at attractive valuations. Once in, we maintain our conviction and try not to let all of the daily noise that the market throws at investors cloud our focus on the relevant longer-term timeframe. It sounds rather simple, but you would be surprised by how difficult it can actually be for an investor to stay the course while riding through a topsy-turvy market like we find ourselves in today. As always, we thank you for your business and we look forward to continuing this ride at your side.

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