

An Update on our Investment Philosophy during These Difficult Economic Times

The challenges regarding Western Europe, Japan and U.S. vs. emerging market (EM) economies have been a CFM macro theme for several years. We believe that developed economies will struggle well into the next decade, but that does not mean that there will not be cyclical bull markets during these struggles, and one CFM strategy is to capture some of that temporary growth with Ned Davis Research (NDR) tactical allocation. A second strategy is that most significant macro-economic forecasts including IMF, OECD, PIMCO, NDR, predict EM growth at six to nine percent over the next decade and developed economies at approximately two percent. Emerging Markets are dependent on exports, but that is factored into forecasts as self-sufficiency via internal consumer spending is improving.

CFM has evolved to include more tactical asset allocation. NDR was selected as our tactical research provider because of their historical performance and their three to six month time horizon for tactical decisions. We believe NDR has enhanced investment performance since we purchased their research. While some believe that CFM should be faster with tactical movement, we philosophically agree with the notion the trend confirmation comes from important tactical factors such as 200 day (six months) moving averages. Our tactical decisions include bonds vs. stocks, fund performance relative to competing indexes, regional performance and allocation, and style allocation - growth vs. value.

We believe that a portion of reliable, less volatile return will come from EM bonds, which is a CFM allocation increase. We think that eventually CFM will again overweight EM equities relative to the Morgan Stanley All Country World Index. The key elements we monitor include trend analysis in NDR Six Way Global Asset Allocation model coupled with trend analysis in CFM and index regional investment performance.

Our investment policy has also evolved by narrowing the use of investment vehicles so that client portfolios are substantially representative of model portfolios. For larger portfolios, we will deviate from models on request, but investment committee monitoring and decisions are focused on model portfolios. We believe that agility with tactical decisions is more important than pursuant of the latest investment trend.

Our approach to investment management has evolved over time and will most likely continue to evolve. While we desire to be open to new and compelling trends, we are also very weary of overreacting to the next hot investment tip. Deviating from an investment approach should be based upon compelling trend analysis, or we run the risk of having no investment policy.

We believe we are addressing the question where do we invest, but that too is constantly evolving. We continue to value all of you as clients and we too are struggling with being patient during the increased volatility we are living through.

Sincerely,

Gary and Josh