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Last year was the cruelest of years for investors. In typical fashion, those investments which had become the most popular over the last few years were hit the hardest – U.S. stocks -37%; foreign stocks -43%; emerging market stocks -53%; China -43%; natural resource stocks -49%; precious metal stocks -30%; commodities -35%; real estate stocks -40%. Yet losses were certainly not confined to these areas. Nearly every type of investment, save government bonds, experienced losses of extreme historical magnitude. Such synchronization of losses meant that thoughtful diversification of one's portfolio did little to preserve capital. Even the Yale Endowment, the archetype of sophisticated diversification, lost 25-35% of its value (depending on the valuation of its non-marketable securities) in the last half of the year. Worse yet, many investors who predicted much of what transpired on the macroeconomic level, still suffered significant losses as the markets themselves did not act as predicted.

While our own portfolios were certainly not immune to loss, the magnitude of those losses was small in the context of such widespread and significant declines across the investment landscape. As you well know, our concerns about the housing market go back a number of years. Our prediction of an ensuing economic recession was spot on, and our primary action – reducing our equity exposure to the bottom of each client's allocation range - was both correct and executed in a timely manner. The attached graph <http://www.ackermancapital.com/pdfs/ACM%20Forward%20Thinking.pdf> of the market's rise and fall with excerpts of my quarterly letters is a testament to our prescient calls. Even so, we did not foresee the collapse in the credit markets, nor the complete rejection by investors of relatively conservative investments such as high quality corporate and municipal bonds. The performance of our reduced equity holdings was decidedly mixed. We benefited from our focus on "quality", but were penalized by our continued exposure to foreign markets. In all, I cannot help but be pleased by the relatively smaller losses that we incurred last year. For me personally, it has been particularly gratifying that so many clients have gone out of their way to say "thank you" and "good job". Such compliments help me put the year in perspective as I tend to dwell on secondary mistakes.

Looking forward to this new year, my optimism is guarded. Despite massive monetary stimulus and unprecedented government intervention, the economy continues to slide downward. We are in the midst of what will be the longest and deepest period of

economic stagnation since the Great Depression. So while the stock market offers attractive values (especially in light of the paltry money market rates), the possibility of further significant declines cannot be dismissed. The fixed income markets appear to have more fully discounted the economic reality, and in recent months we have taken advantage of the relatively attractive interest rates of high quality corporate bonds and high quality municipal bonds. Even more recently, we have begun to build exposure to those investments which we believe offer protection against possible inflation caused by the ballooning monetary base, including Treasury Inflation-Protected Securities (TIPS), commodities, and emerging market equities. With regard to the stock market in general, we expect to gradually return to target weightings over the next year or so, with a bias toward believing that we can do so at even lower prices.

On a positive note, the economy and the capital markets will eventually recover. It will simply take time. When we look back on this period ten years from now, it will be clear that this was an obvious time to take advantage of depressed priced and investor pessimism. Our overall strategy is to continue with our conservative stance for now, and to gradually increase our exposure to the higher reward/higher risk areas of the investment landscape over the next year or so. However, in a market that remains extremely volatile, the exact timing of these moves will be very important.

Sincerely

A handwritten signature in black ink, appearing to read "David B. Ackerman". The signature is fluid and cursive, with a long horizontal stroke at the end.

David B. Ackerman, CFA, CFP