

ACKERMAN CAPITAL MANAGEMENT, LP  
5956 SHERRY LANE, SUITE 1600  
DALLAS, TX 75225  
(214) 361-5383

July 20, 2009

With plenty of talk of “green shoots” on the economic landscape, the stock market rally that began in early March continued strongly through mid-June, before stalling out in the final weeks of the quarter. From the trough to the peak this rally registered a 40% gain in the S&P 500 Index in just three months, one of the sharpest advances in stock market history. The rally in foreign stocks was even more impressive as the MSCI Index jumped nearly 50% from its lows. While the stock market recovered, interest rates began to creep back up. While that was bad news for Treasury prices, municipal bonds, investment grade corporate bonds, and high yield bonds still delivered strong returns as record credit spreads narrowed in an increasingly optimistic environment.

Our portfolios performed very well during this market rebound. As we highlighted in last quarter’s letter, we timed the bottom of the market with near precision, adding significant exposure to stocks just as the market began to recover. Earlier in the year, we had already added exposure to emerging markets, natural resource stocks, and a commodity index fund. All have performed well. Most recently we have added exposure to those segments of the market that have lagged the recent rally, but offer superior long-term returns. Specifically, we have added a Japan fund, a healthcare fund, and the Dreyfus Appreciation fund, which offers us exposure to a portfolio of large, high quality, multi-national companies. On the fixed income side, our emphasis on high quality municipal bonds in taxable accounts and high quality corporate bonds in retirement accounts has generated excellent returns relative to their risk profile. Finally, our addition of a TIPS fund early this year is already showing a small profit. We are not accustomed to so much activity in our portfolios in such a short period, but the markets have been extremely volatile and have presented us with many opportunities in a short span of time.

Looking forward to the second half of the year, we are not confident in the consensus view that all of our economic woes are behind us. We doubt that the economy can recover until the residential housing market hits bottom. In light of what we view as a record supply-demand imbalance in housing, we question the belief that prices have seen their lows. Furthermore, we believe that the outlook for the commercial real estate market is potentially grim and that it could trigger a second wave in the banking and credit crisis. Despite our concerns, we cannot completely dismiss the possibility that the recession has run its course. Either way, the prospects for a truly vigorous recovery are

poor given the years of de-leveraging needed to return our overall economic structure to health. Because of our cautionary economic outlook, we did take some profits in our stock funds as the rally matured. Our portfolios remain below their target equity allocations, but are well above their lowest levels from earlier this year. We continue to view this overall period as an opportunity to invest, but believe that a patient, gradual approach will serve us best. Should the capital markets falter again, we will resume our bargain hunting.

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  
Partner