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U.S. and foreign stocks fell in the first quarter of 2008 as the world markets continue to discount a global economic slowdown led by a consumer driven U.S recession. The S&P 500 Index was down 9.4%, while the MSCI EAFE Index of foreign stocks declined 8.8%. High quality, taxable bonds served as a safe haven in this environment, as the Lehman Aggregate Bond Index rose 2.1%. High quality municipal bonds, however, were negatively affected by continued concerns regarding the credit worthiness of municipal bond insurers and disruptions in the variable auction rate security market, a major source of short-term credit for many municipalities. As a result, the Lehman Municipal Bond Index declined 0.6% in the first quarter.

Our conservatively positioned portfolios continue to weather this difficult environment well. Generally speaking, our portfolios have been at or near minimum equity allocations (relative to each client's Investment Policy) since mid-October of last year. What equity exposure we do have is biased towards large, high quality growth stocks here and abroad. In addition we continue to hold a small, strategic position in gold stocks, which has provided us with a valuable market hedge. By and large, our fixed income portfolios are invested in the low cost, high quality indexed Vanguard offerings. Given our already conservative stance coming in to the year, the market action in the first quarter did not warrant any major moves from us.

It has been our belief for some time that a downturn in the booming residential housing market was inevitable and that an economic recession was likely to follow. While some may still debate the odds of a possible recession, we believe that it began last December or January. Furthermore, we believe that this recession could be deeper and last longer than many might expect. The housing downturn is far from over given the massive backlog of unsold homes, the wave of adjustable rate mortgages being re-set at higher rates this year, and the inevitable foreclosures that will follow. When you add record energy costs to the mix, it becomes clear that this recession will be driven by weak consumer demand and that it will not be mild in nature.

Given our economic outlook, we believe that the market decline of more than 15% over the past six months has yet to fully discount the economic reality. Historically, stocks have fallen by greater amounts when the economy was in recession. As such, we anticipate another down move in the market before things improve. We can envision an

eventual market bottom that will be accompanied by very negative investment sentiment in the face of scary headlines about regional bank failures as well as comparisons to the stagflation of the late 1970's and even to the Great Depression. The headlines, of course, will be much worse than the reality, and it is precisely at this juncture that our contrarian discipline will lead us to increase our equity holdings while many investors will be selling in a panic at market lows.

As our long time clients know, we have successfully navigated difficult markets in the past. During the bear market year of 2000 to 2002, our portfolios incurred only modest losses compared to the large declines in the major stock indices. In addition, when the market finally bottomed, we were properly positioned to profit from the rebound that followed. The performance of our clients' portfolios during this period is something that we take great pride in because it confirms the validity of our approach as well as our ability to apply it in both up and down markets. We believe that our risk-averse, contrarian, and diversified approach to investing will continue to serve us well in the future, just as it has in the past.

Sincerely,

A handwritten signature in black ink, appearing to read "David B. Ackerman". The signature is fluid and cursive, with a large initial "D" and "A".

David B. Ackerman, CFA, CFP
Partner