

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

April 23, 2009

U.S. and foreign stocks continued to decline steeply in the first two months of this year, but have staged an impressive rally in recent weeks. Despite these gains, the S&P 500 Index fell 11% in the first quarter, while the MSCI EAFE Index of foreign stocks fell 14%. High quality, taxable bonds were essentially flat for the quarter as the BarCap Aggregate Bond Index rose 0.4%. High quality, municipal bonds, however, delivered solid gains of just over 3% as investors who had fled to the ultimate safety of Treasuries and money markets have begun to return to the relatively attractive municipal market.

Our defensively positioned portfolios continue to weather this difficult environment well, just as they did last year. Our addition of TIPS, emerging market equities, and commodities in January of this year appears to be well-timed and each has displayed relative strength since our purchases. Furthermore, in most portfolios we added significant equity exposure at or near the exact market lows in March that preceded the current 25% rally. In most cases, the amount of equity exposure added ranged from 10% to 15% and was concentrated in depressed value funds. Our recent stock fund purchases are not an indication that we think the market has bottomed. Instead, it is part of a longer term belief that, in general, we are simply closer to the bottom than the top and that looking back many years from now it will be clear that this period represented a good opportunity to buy stocks at attractive levels. Our game plan has been and will continue to be to add stock market exposure gradually over the next year or two through a handful of decisive moves timed to coincide with peaks in negative investor sentiment. This strategy is the mirror opposite of our activity over the past two years in which we gradually reduced our stock holdings ahead of and during the market decline at peaks in bullish investor sentiment.

While our bias is certainly toward taking advantage of values in the stock market and returning our portfolios to target and eventually above-target equity allocations, we will remain patient. In the short-term we would not be surprised to see the current rally continue in a fashion that might lead many investors to believe that market weakness is behind us. Unfortunately, we do not believe this to be the case. In fact, do not be surprised if we reverse a portion of our recent purchases if this rally begins to lose momentum. Secular bear market bottoms are typically characterized by “rock bottom”

valuations and extremely negative market sentiment. While stocks are undervalued and sentiment is indeed poor, both measures have further to fall to reach historical lows. Furthermore, from a macroeconomic perspective if the recent low represents the market bottom that would imply an economic recovery beginning this fall. Given the current supply-demand imbalance in the residential housing market and the continued acceleration downward in the employment data, a recovery that soon seems unlikely. Finally we find it hard to believe that this cycle could end without any serious negative developments from commercial real estate sector. Perhaps it will be negative developments in this area that will be the impetus for one final move downward in the market that will push valuations and sentiment to the cellar, setting up one of those truly rare opportunities to buy stocks for extraordinary long-term gains.

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