

WOOD & WHITE

Investment Advisors, LLC

Market Commentary 2nd Quarter 2008

To our clients and friends:

The continuing fallout from the credit crisis and a 38% surge in crude oil prices led to the worst second quarter for the U.S. stock market since 2002. The market has now posted negative returns for three consecutive calendar quarters, and the decline has continued through mid-July. As of the writing of this letter, the sell-off has spread world wide and all of the major U.S. indices are firmly in bear market territory.

Very little has changed in our long-term outlook and approach from our most recent quarterly report. Investor fear and pessimism are at extreme levels and momentum strategies (e.g. short-selling stocks of financial companies & the U.S. dollar while chasing commodities higher) currently rule the day. We cannot know precisely when conditions will improve. When the market environment gets this bad, there is very little to be done other than to remain patient, trust one's asset allocation, selectively seek opportunities to upgrade the quality of our equity holdings and judiciously add to positions where appropriate.

We expect elevated volatility and scary headlines to continue in the near term. Economic challenges abound and the global deleveraging process must run its course before a sustainable recovery can begin. However, the Federal Reserve and the U.S. Treasury have clearly signaled that their top priorities are to stabilize the financial markets and restore confidence in the banking system. With the integrity and stability of the system insured, history suggests that the current extreme levels of fear and panic will subside as the market cycle runs its course and eventually turns.

Financial services companies have long represented one of the largest sector weightings in our clients' portfolios. Our investment in this area reflects our belief in the long-term importance of dividend income and our recognition of the irreplaceable role that financial companies play in the global economy. This has served us well over time but has had a significant negative impact on our recent equity performance over the past twelve months. An increase in credit deterioration, amplified by requirements under U.S. accounting standards that certain assets be marked-to-market, have led to increasing concern over the capital adequacy of even the largest and strongest U.S. financial institutions. The KBW Bank Index is currently down over 50% from its 52-week high. In less than 12 months, 8 to 10 years of gains in the financial services sector have evaporated as many companies in the sector now trade at decade lows.

As we have stated in the past, many of the assets currently held on the balance sheets of the major financial institutions are not actively traded and are difficult to accurately

value. U.S. accounting standards require these assets to be marked-to-market to reflect a guesstimate of their current value. While there has clearly been an increase in “real” credit deterioration among borrowers, the marking of these assets in the face of the current credit market turmoil accounts for a significant portion of the current “paper losses” being reported in the sector and has contributed significantly to capital adequacy concerns.

Given the current state of panic in the credit markets and the exacerbating effects of global deleveraging, it strikes us as highly unlikely that the current mark-to-market valuations being presented accurately reflect the long-term value of these assets. Further, the associated losses being reported as a result of this accounting distortion are likely fostering an overly-pessimistic view of the long-term earning power of many leading companies in the sector. We believe the recovery prospects for the sector are significant, and we plan to add to positions judiciously moving forward.

While company and sector-specific concerns tend to dominate investor consciousness during such difficult times, we remain focused on the factors that determine our clients’ ability to weather the storm while we wait for a break in the clouds:

- **Asset allocation:** Asset allocation is the primary determinant of a given investor’s potential investment return and exposure to risk. Current market conditions have once again illustrated why having some high-quality bond exposure is important for almost any investor. Our commitment to maintaining balanced portfolios (both stocks & bonds) has afforded our clients better protection than we could have hoped to achieve from security selection alone.
- **Liquidity management:** Periods of extreme volatility should only prove permanently detrimental if an investor is forced to sell securities at depressed prices to meet liquidity needs. Whenever possible, we have ensured that our clients’ portfolios maintain a sufficient level of liquidity and, when necessary, a stable income stream to provide for our clients’ cash needs during unforeseeable periods of market stress.

In recent months we have endured the most difficult period of our professional lives. Our personal assets are invested in the same core holdings as our clients. We are confident that the equity markets will eventually recover and we believe that our clients are positioned to participate meaningfully when the market environment improves.

Sincerely,

WOOD & WHITE INVESTMENT ADVISORS, L.L.C.



Charles B. White, CFA



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