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WILKINSON O'GRADY
Global Asset Management

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Our first priority has been and continues to be preservation of capital in what is an historic bear market. We took the first step and moved to a highly defensive portfolio posture in June of 2007 and the second step was in August/September of 2008. Going forward, our focus is on *when* do we reinvest and in *what* do we reinvest? There have been relatively few times in financial history when cash is the best investment alternative for an extended period of time, as it has been for the last eighteen months. Even so, as this is written, global financial markets face a daunting list of negatives. From the time we first concluded that the global financial/credit system would come under pressure and that the global economy would (as a consequence) enter a synchronized recession, we cannot say that anything has gotten better, other than the purchasing power of cash and the value of the dollar.

Governments around the world are pulling out all stops to try and stimulate their economies to one degree or another. Even so, we are skeptics. The size of the debt bubble, which is imploding, is far larger than any government efforts to ease the situation. Here in the U.S., Washington's policy doesn't deal with balance sheet problems, but continues to treat this recession like most others in the past, as an income statement problem. Therefore, we are mentally prepared for the inevitable effect—disappointment. We are obliged to deal with the financial and economic world as it is, not as we would like it to be. In our view this is going to take time to work through. There could be some strong multi-month rallies, but it is going to be hard to sustain broad and lasting moves for the overall market. We know how to invest in these markets. The 1970's, which might bear some resemblance to the current world, included opportunities to build capital in what was a long negative period for broad markets.

We are in a strong position with portfolios being highly defensive and liquid. At some point great opportunities will unfold globally, but until then we remain defensive. Three watchwords for our investment group in this complex financial environment are to be *humble*; to be *patient*; and to be intellectually *flexible*.

With best regards,



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