



Addendum to Fall 2008 Newsletter

Due to the unprecedented volatility in the markets since the writing of our enclosed quarterly newsletter, we wanted to take this opportunity to provide you with our additional thoughts. We have just experienced the worst week in the history of the U.S. stock market. In some ways the gyrations in the market defy description. We believe the sell off in the markets has been driven by fear of the unknown. No one is certain that the efforts of the U.S. Treasury and the Federal Reserve, in coordination with counterparts throughout the rest of the world, will implement the right programs to unfreeze the credit markets and restore confidence in the world's financial institutions. Because of this, no one is certain of the future direction of the economy either here or abroad, and no one is sure what company earnings may look like over the next year or so. However, these issues are more important for short-term trading than long-term investing.

As long-term investors, we feel we do know some things. We know that we own companies with defensive business models, strong competitive advantages and solid balance sheets. We also know that these companies are now trading at historically low valuations. In fact, stock prices of the businesses that we own have retreated beyond the point where we could say there is any rational judgment or assumptions going into the valuations. We don't have any more clarity on next year's earnings than anyone else, but we do believe that the companies we own will likely fare better than their competition. When things stabilize they will be in an even better competitive position than before.

We don't believe that selling into frenetic declines has ever been a sound strategy. Human nature instills an instinct to "don't just stand there, do something" when confronted with events beyond your control. While it may be an inherent flaw in our DNA, we think selling a business for much less than we believe it is worth is somewhat detestable and therefore our stance of "just stand there, do nothing" is the best course of action. In actuality, we did more than nothing as we added several new positions to the portfolios (to be discussed in next quarter's newsletter) and added to many existing holdings.

We look forward to communicating with you next quarter.