



Newsletter to Public Q1 2008

Executive Summary:

As of January 17, the S&P 500 is down 15% since its recent peak on October 9th, while small cap value stocks are down 26%. The MSCI EAFE (European, Australasian and Far Eastern) index is down 19.5% over this period. The US economy is probably heading into a recession and it is absolutely unclear who the next leader of our country will be. While it may seem ironic, many managers we follow feel this presents more opportunities than any time since 2000. Our core margin of safety managers did well during 2001 and 2002 when the broad market did poorly. While this time may be different, the margin of safety discipline is in place and we believe our patient clients will be rewarded.

With clients facing downside volatility, it is important to reiterate our investment philosophy and underscore the difference between volatility and risk of permanent loss of capital. We need to remain steadfast in pursuing our goals and react only based on what is in our clients' long term best interests instead of what seems comfortable in the short run. It is imperative that we meet all of you in the very near future to discuss any concerns you may have.

Global View news

As most of you now know, we have officially formed an investment advisor with the Securities and Exchange Commission. While nothing is ever as simple as we would like it to be, this will allow us to communicate with clients in more detail than we could previously. Because client communications are highly regulated, we will continue to communicate to you in broad terms in these newsletters; however, we will begin providing due diligence reports on the funds we offer sometime later this year. We hope to make this and other information available on our website and to our valued clients on demand.

Are We in a Recession?

While there are a number of definitions for recession, the most useful one for our purposes is a decline in economic output lasting for more than a few months. Recessions are generally accompanied by declines in employment, investment, and corporate profits. The cause of recessions is difficult to pin down. Dr. John Hussman suggests recessions are actually periods when the mix of goods supplied by producers has become too different from the mix of goods demanded by consumers. The subprime unwinding is the first leg of this recession and is probably not over.

Research by Dr. John Hussman illustrates very clearly that all main indicators indicate we are in a recession now or will be shortly. To summarize briefly, Dr. Hussman feels all the key leading criteria of a recession are met. First the spread between AAA corporate securities and treasuries has widened. Second, the spread between the 10 year treasury and T-Bills has widened. Third, the S&P 500 is lower than it was 6 months ago. Finally, the National Association of Purchasing Manager's index has

declined below 50.

Recessions are a natural and useful process that creates a readjustment in prices, production, and worker skills, but stock market corrections are usually deeper than during periods of economic growth. Clearly this means that we are headed for more volatility which means that your statements may look worse over the coming months. We ask you not to despair, because volatility is not the same as permanent loss of capital as long as we can keep our wits about us!

On the positive side, Dan Fuss from Loomis Sayles believes we are not in a financial crisis and that there is plenty of liquidity to deal with normal non-speculative lending. Moreover, an increase in exports due to the weak dollar and an increase in corporate spending may lessen the effect of a recession as these sectors of the economy take over where the US consumer falters. Finally, the US government can stimulate the economy and is in the process of doing so.

Risk: Volatility vs. Permanent Loss of Capital

Risk is a tricky term to define; one that we feel is used incorrectly in the investment world. Most investors define risk as the deviation from an average return. This is actually volatility. We like to define risk as the likelihood of losing capital invested or of not meeting a return target over a reasonable time horizon. This is the most important distinction we can make because the two are absolutely different and analyzing volatility alone can result in permanent loss of capital!

Volatility is easy to measure using historical performance reporting data. For example, we can analyze monthly returns and define how these deviate from an average. This can be very misleading. For example, an investment in Carolina Investors would have looked to be without risk before the default. Every month until default, Carolina Investors paid a consistent monthly coupon. After default, investors generally received about 15% of their capital returned.

Our margin of safety managers sometimes goes through protracted periods where they underperform their respective indexes. Moreover, they sometimes go through periods of volatility where prices of their assets fall in aggregate resulting in a drop in net asset values. This is such a time. In our next review with you we will discuss the returns of the managers and our expectations going forward. Fortunately, our managers have had very little exposure to subprime. Despite this, net asset values on almost everything except alternative investments have fallen. During the fourth quarter, in an extremely low probability occurrence, even some alternative investments that historically have low correlations to bonds and stocks fell.

This is absolutely normal and absolutely expected. While we do look at volatility, especially downside volatility, we are more concerned with the investment approach. Sometimes riskier strategies will do better in the short term. That doesn't mean they are not risky!

Market Outlook:

In order to make money in the stock markets, it is necessary to buy securities today that

will have a higher price in the future. It might seem interesting to provide a pithy prediction such as: the average return during the last 19 elections has been 7.4% per year.” We wish it were that simple.

Keeping in mind that volatility is the nature of the beast; it is always uncertain whether it is a good time or a bad time to invest. That said the consensus of our favored managers is:

- The US stock market and other markets are likely to experience a continued correction
- There are far more attractive individual opportunities now than there have been for a number of years
- The opportunities are more in Asia than in other parts of the world
- We will continue to experience volatility

In the latest letter to shareholders, Amit Wadhwaney of Third Avenue Funds had this to say about uncertainty: “... the fund has purchased securities which, to a casual observer, might appear to be fraught with considerable uncertainty. Uncertainty in this context, refers to the fact that the exact path of the company’s, or industry’s fortunes, is simply unknowable, or unpredictable.” He gives examples of companies, and then continues his discussion with the following: “The uncertainty associated with such situations is often perceived as “risk” by investors, and a reason to avoid such investments. We do not automatically view “uncertainty” and “risk” as synonymous. Uncertainty implies riskiness; no more than a lower level of uncertainty implies an absence of risk.” In this letter he goes into much more detail. If you would like to see the letter, tell us and we can mail or email it to you.

During this period, many of the funds we recommend and use with our clients have performed better than their peers but some have not. We do not and will never recommend an investment due to its recent performance, but only in the context of the risk the fund takes and its long term historical performance. This approach will not always be perfect over shorter time periods. When we assess the performance of our managers, it is only in hindsight that we can judge whether patience was a virtue or a costly mistake.

In our opinion, the single biggest mistake an investor can make is to look at short term performance and compare that against other investments. Global View Investment Advisors is dedicated to learning what drives performance, and we spend a considerable amount of our time getting to know the managers’ investment approach and defining the reasons we believe the managers will continue to outperform over the long term. We have regular dialogue with portfolio managers and will make changes when we believe that is warranted. However, our inability to predict the future remains and we will always be subject to volatility.

Conclusions and Recommendations

Based on experts we believe in, a recession is likely. While this tempers our expectations for investment returns for the indexes, ironically this seems to be a better opportunity for our managers than in recent years. Therefore, we strongly believe our clients should continue to pursue the investment strategy we have jointly identified for

you because we believe the managers we use have proven that their strategies work given sufficient time. In hindsight, we will always make some mistakes, just like anyone who plays Contract Bridge. We want to play each hand correctly. Of course in doing so we will lose points on single deals, but our goal is to achieve the highest score we can given what we are dealt, which includes your risk tolerance and your behavior in the face of uncertainty.

During our next review with you, we would like to make sure that your strategy is in step with your goals and your investment time horizon. During our review we can illustrate to you the affect on expected risk and expected return of holding period, and make adjustments to your strategy as needed.

1099s and Tax Preparation

The change in tax law in December means many Federal tax forms were delayed and only recently printed. While firms are required to deliver 1099s for tax preparation by January 31st, it is again likely that many of these will be corrected at a later date. For this reason, we recommend you hold off a few additional weeks before preparing taxes in order to avoid filing an amended return.

Upcoming Events

We have a lunch workshop in the activity center at Keowee Key at noon on January 24th and a dinner workshop at Pixie and Bills at 6 p.m. on January 24th. We have a lunch workshop at Jacob's Engineering at noon on January 31st. We have not yet scheduled additional workshops, but will be offering them each quarter. Moreover, Ken will teach a ten session class at Furman University as part of the Furman University Learning in Retirement (FULIR) series this fall.

Yours Sincerely,

Global View Investment Advisors Team