First Quarter, 2008 Overview

The S&P500 lost (9.4%) in the 1st quarter, 2008. However, this quarter's negative result was associated with significant volatility, as the S&P500 gyrated between 1468 and 1273 over a 90-day period. The recent market turbulence reminds us of the story about a plane heading through a severe thunderstorm. After several minutes of white knuckle flying, a woman sitting next to a reverend asked if he could do anything about the harsh weather. The reverend turned to the woman and said: "I'm sorry, but I'm just in sales, not management."

The reason for the turbulent market is largely due to Wall Street's "sales" of bankrupt mortgages to unsuspecting investors. And unfortunately, banks are unable to "manage" their way out of a frozen credit market that emerged from the continuing mortgage meltdown and surrounding pressure on derivatives (bets) associated with these high risk loans. These opaque securities are contributing to questions surrounding a possible financial earthquake – and a large rumble occurred with the collapse of a major investment bank during the 1st quarter – Bear Stearns. The U.S. Treasury and Federal Reserve came to the rescue, and the market recently reached a calm state. However, it's quite probable that looming credit risks could continue to create random price movement within the stock and fixed-income markets, along with increased volatility for the rest of 2008. Basically, the avoidance of a complete collapse of Bear Stearns does not change the underlying credit problems – many banks and individuals remain overleveraged and the unwinding of debt has a ways to go. Our opinion is that the storm is not over, and the market conditions require investors to manage through this storm with eyes wide open.

This leads to our usual statement that we will deliberately reiterate in our letters until conditions change. *In today's uncertain environment, including low(er) long-term interest rates, opaque financial markets, rising commodity prices, high amounts of consumer and government debt, an enlarged trade deficit, large currency imbalances, and ongoing geopolitical issues, we do not expect the stock and fixed-income markets to perform in the future as they have in the past.*

The Vanguard Intermediate-Term bond index was up 3.2% in the 1st quarter, 2008. However, one must keep in mind that this short-term gain is a result of investors fleeing to government bonds, with the hope of hiding from credit risks that loom in nongovernment securities. This race to U.S. Treasuries is not due to the superior interest rate an investor would receive in these securities – 3.5% on a 10-year Treasury Bond. It is our opinion that long term market interest rates can move upward, perhaps rapidly, as the Federal Reserve aggressively reduces short-term interest rates to create liquidity in the market and help leveraged borrowers to refinance their debt. This action plan of lowering interest rates to stem financial mishaps has had a short-term positive impact on fixed-income prices. However, as incoming data such as a continued housing slow-down and rising mortgage default rates lead to a further lowering of short-term interest rates, the resulting increased money supply and rising commodity prices can lead to an increase in long-term interest rates as inflation takes off within the economy. Basically, the short-term gain in bond prices can dissipate very fast.

We expect that the conflicting circumstances surrounding interest rate movements can cause further instability in fixed-income investments. This unsteadiness might gradually become higher than normal, as the market is torn between the Federal Reserve lowering short-term interest rates, and watching long-term rates react strongly (negatively or positively) to any change in short-term interest rate movement . Our view - we remain concerned about the long-term issues surrounding loose lending practices by major banking institutions over the past five years that have not worked through the system, as well as the possibility of higher inflation due to an expanding money supply and rising commodity prices. In this volatile environment, we will stay committed to short to mid-term fixed-income opportunities that offer a fair risk and reward return. Our shorter term bonds continue to achieve yields that are higher than similar investments in government bonds, despite the recent volatility due to many investors selling nongovernment instruments and fleeing to U.S. Treasuries. We anticipate staying on our current course.

We welcome your questions regarding our opinion on the market's direction. A frequent question: What will happen to the market during the next six to twelve months? As we have stated before, we are unable to provide a clear answer to questions regarding the market's near-term direction. The mixed emotional display surrounding the market forces us to remain agnostic to the market's short-term movements, and instead keep our eyes open for opportunities that emerge in a volatile environment. (We have a few opportunities to share with you in this letter.) In the end, we place continued emphasis on our confidence that we have acquired securities at prices that will provide us a fair return overtime (despite gyrating markets). This includes investing in fixed-income instruments that offer a risk/reward relationship that is commensurate with our expected returns, as well as purchasing portions of individual companies through the equity market that offer us a long-term ***margin-of-safety***. A second question continues to loom: If the stock and fixed-income markets remain "uncertain" in the near future, why don't we sell "all" our holdings and place the money in U.S. Treasuries earning approximately 1.5% to 2% until the markets "stabilize?" ***(As you can see, this strategy would not have worked very well in the past twenty-four months for us.)*** We will (re) quote Warren Buffett to provide an answer to this question. "*We try to price, rather than time, purchases. In our view, it is folly to forego buying shares in an outstanding business whose long-term future is predictable, because of short-term worries about an economy or a stock market that we know to be unpredictable. Why scrap an informed decision because of an uninformed guess?*

At Founders Capital Management our activity remains deep-rooted in seeking investment simplicity – investing in securities we know and understand, and in assets where we can estimate an intrinsic value. We also manage our portfolio to avoid excessive trading. We are engrained to identify developing risks – even in areas that have not yet erupted. We strive to invest for the long-term, and to concentrate on a distinction between what is *knowable and important*, versus knowable and unimportant or important and unknowable. We understand that emotional stability and thinking independently from the crowd eventually leads to success, despite the recent panic and random behavior of prices in the market.

Of course, panic in the markets is what brings us opportunity, and we have patiently waited for great companies to sell at fair prices. And, now to the good part – a few more opportunities have surfaced during the past three months!

During the 1st quarter, we added an **industrial company** to our portfolio – *United Technologies.* Most of you are very familiar with this local Hartford, CT based company. United Technologies Corporation (UTC), incorporated in 1934, provides high-technology products and services to the building systems and aerospace industries. The Company conducts its business through six principal segments: Otis, Carrier, UTC Fire & Security (UTC F&S), Pratt & Whitney, Hamilton Sundstrand and Sikorsky. Otis includes elevators, escalators, moving walkways and services. Carrier includes residential, commercial and industrial heating, ventilating, air conditioning (HVAC) and refrigeration systems and equipment. UTC F&S offers fire and special hazard detection and suppression systems and fire fighting equipment, electronic security, monitoring and rapid response systems and service and security personnel services. Pratt & Whitney includes commercial, general aviation and military aircraft engines, parts and services, industrial gas turbines and space propulsion. Hamilton Sundstrand includes aerospace products and aftermarket services. Sikorsky offers military and commercial helicopters, aftermarket helicopter, and aircraft parts and services.

Why UTC? Although United Technologies (UTC) is an industrial conglomerate that holds some of the most recognizable global brands, UTC can be thought of as operating in two distinct market segments: 1) Building Infrastructure where UTC is the largest global supplier of elevator & escalators and heating & cooling products and is the #2 supplier of fire & security systems, and 2) Aerospace & Defense where it is one of the largest suppliers of commercial and military aircraft engines and systems. The current investment thought that has impacted the short-term price of the company's stock price is a slowdown in housing and residential construction spending that will make its way to the commercial segment. This thinking may be true within North America, however, UTC is a global industrial company with over 60% of sales from non-US markets and approximately 30% from Asia. This is attractive since infrastructure building is much higher in emerging markets. We think that UTC has a long-term sustainable growth rate which is not being viewed favorably by investors who are looking at short-term challenges.

Another key investment point for UTC is its unique business model. The company concentrates on businesses that have a slow replacement rate (think of how often you need to replace an elevator, air conditioner or airplane engine), but have a high servicing component. As UTC wins a contract for supplying elevators or air conditioners for a building, the servicing contract on these products can go on for years, providing a long-term revenue annuity for UTC that is very predictable. In addition, once these products are installed, it is highly unlikely that they will soon be replaced.

Basically, UTC is in global infrastructure businesses that offer tremendous opportunity as areas like China and India develop over the next few decades. UTC should produce approximately $4.85 per share in earnings during 2008, most of which can be distributed to shareholders through dividends or share buybacks. Given the current pullback in the company's stock price, we were given an opportunity to purchase this quality company that is growing earnings in excess of 10% per year at a very fair price.

During the 1st quarter, we continued to add to other companies in a volatile market, as we accumulated additional ownership in two businesses within our portfolio – *The Walt Disney Company and Medtronic.*

Why more Disney?

We added to our stake in The Walt Disney Company, which is a diversified worldwide entertainment company with operations in four segments: Media Networks, Parks and Resorts, Studio Entertainment and Consumer Products. We believe that Disney has stronger long-term growth prospects than most investors realize. This is due to the company's competitive position within the entertainment industry, including: the breadth of Disney's content (ESPN alone is one third of corporate profits and is experiencing double-digit growth), its significant international exposure (Disney is localizing animation and other media content to each individual country), and lastly, the company will begin to see the benefits of years of aggressive investing in key growth areas such as the Internet, wireless, video games, and numerous consumer products.

Given the concern of an economic downturn, Disney's stock has languished the past two years as short-term investors have fled this company. This situation has now given us an opportunity to build up a larger position in a great company at a very fair price. Disney is expected to earn $2.25 per share in 2008, and has the ability to grow their annual earnings at 10% or more in the future. We feel a large economic interest is warranted for a rare global company that can be viewed 20 years from now, and intend on holding Disney for a long time.

Why more Medtronic?

During the 1st quarter, 2008 we added to our position in *Medtronic*, the leader in implantable cardioverter defibrillators (ICDs) and other devices for managing out-of-step hearts. The company is also a growth leader in sales for devices that manage chronic diseases of the spine, pancreas, and brain. With this said, two areas highlight a larger stake in Medtronic.

First, Management has a strong commitment of 10% of sales to R&D that underlies future long-term growth. The company has a robust pipeline of products that target many under-penetrated markets including products such as drugeluting stents, artificial discs, neurostimulation, and continuous glucose monitoring devices for patients suffering from diabeties. Medtronic's steady cash flows and strong balance sheet also allow the company to make acquisitions that compliment their R&D efforts and broaden a diverse portfolio of products.

Secondly, we expect Medtronic to increase its emphasis on growing international revenues. In international markets, Medtronic is not consistently the category leader as it is within the U.S. We anticipate the company to increase its share in many product areas as international markets expand. Medtronic expects five- year compounded annual growth of 46% in Russia, 40% in China, 25% in Brazil, 25% in Asia/Korea, 23% in India, 19% in Canada, 15% in Europe, and 15% in Japan. The company is aggressively adding sales representatives in many of these emerging markets.

Medtronic is expected to earn $2.80 per share in 2008, and has the ability to grow their annual earnings at 10% or more in the next five years. We again feel a large economic interest is warranted for a rare global company that can be viewed in the future.

The remainder of our ***portfolio represents a collection of great businesses, trading at fair prices that continue to gain value every day.*** Berkshire Hathaway, Coca-Cola, PepsiCo, Microsoft, Comcast and our other media holdings, continue to grow their earnings (faster than current inflation) independent of the short-term gyration in their stock quotations. The following are some ***highlights*** in business activity that took place during the 1st quarter, 2008.

Our **Food and Beverage holdings,** Coca-Cola and PepsiCo, had an excellent 1st quarter, and we expect fantastic results for the remainder of 2008.

We are anticipating Coca-Cola to grow their worldwide volume at 5% in 2008. A surprising upside to Coke's profits is expected over the next few years due to improvements in various parts of the company's business. A few highlights: First, the emerging market opportunity remains a critical driver for Coca-Cola. The company receives an estimated 40% of concentrate business profits from emerging market economies. Volumes in these markets have been growing strongly on the back of favorable economic conditions, and profits have grown at an even faster rate due to increased pricing. Economists forecast 7% real GDP growth in emerging markets which should fuel continued strong momentum in Coke's emerging market operations. Second, the foreign exchange benefit will also drive upward earnings momentum to Coke, as the dollar continues to weaken in the global market. Coke receives approximately 80% of its profits from overseas markets, and a favorable currency exchange should continue to be a tailwind, adding to Coca-Cola's profits over the next few years. Third, a financially stronger and a better aligned bottling system will assist Coke in expanding their global market share. Coke has allowed their bottling system to improve their returns, with many bottlers now earning better returns on their capital intensive businesses. In addition, there is a much better alignment between Coke and its bottling partners, working together to find a coordinated "win-win" solution. This new collaborative approach by Coca-Cola has allowed their bottlers to reinvest for the long term. Lastly, Coke now has a much stronger innovation pipeline. The launch of Coke Zero continues to be a success story, and the company's Glacceau Vitamin Water's expansion into markets like the UK, Canada, and Australia could boost the Coke's system volume growth an additional 1% on average over the next 5 years.

Coca-Cola's earnings are on track to increase approximately 12%, to $3.03 per share, for 2008. (Coke's ongoing share buyback program causes earnings per share to grow higher than operating income, as fewer shares are outstanding.) For all of 2008, Coca-Cola should generate approximately $6.5 billion in cash, which will support its expansion, as well as a 2.4% shareholder dividend and share buyback program.

PepsiCo is expected to continue their strong performance in 2008. Worldwide volume increases should be approximately 5%, as PepsiCo aggressively grows their non-carbonated drink products and pursues global expansion. PepsiCo Beverages North America revenue grew 15% last year as tuck-in acquisitions contributed 2.5 percentage points of growth. Non-carbonated drinks volume performance was led by Gatorade, Lipton ready-to-drink teas, enhanced waters and energy drinks, which grew double digits. Operating profit in the noncarbonated segment is higher than carbonated drinks, leading to higher profit levels for PepsiCo, North America. During 2008, we think PepsiCo can continue to grow their beverage business at a good clip within North America.

PepsiCo International continues to outperform, with revenue up 26% last year, to $5.4 billion. This tremendous growth was driven by 8% snack volume and 9% beverage volume growth, as well as favorable pricing. Foreign currency translation contributed 7 percentage points of growth and the impact of acquisitions contributed 8 percentage points of overseas growth. Snack volume growth was led by expansion in Russia, the Middle East, Turkey, and India. Beverage volume growth was led by double-digit gains in the Middle East, China, Brazil, Argentina, India, and Russia. It is important to note that carbonated soft drinks also grew at a high-single digit rate, with growth in each of the company's four largest trademarks—Pepsi, 7 Up, Mirinda, and Mountain Dew. Non-carbonated drinks grew double digits, led by Lipton ready-to-drink tea and the addition of Sandora juice and juice drinks.

In 2008, PepsiCo is on track to increase net revenue approximately 8% and operating earnings around 10% over 2007. PepsiCo will return more than $4 billion of its annual free cash flow to shareholders through share repurchases and dividends.

Our **Technology holding,** Microsoft, is expected to announce very positive results throughout 2008. Since Microsoft released its new operating system (Vista), wide scale adoption of the new operating system is taking place. However, in the 1st quarter 2008 Microsoft threw a new twist into their growth plans by announcing a desire to acquire Yahoo!. Our take – we are always skeptical of any acquisitions, especially large ones, as organizations have a tendency to get side-tracked from normal business when pursuing their target. In addition, winning can sometimes lead to losing as management combines two organizations with different businesses and more importantly, dissimilar cultures. With this said, we are in support of this transaction as Microsoft needs to protect its core Windows and Office franchise, especially if a larger percentage of software products are sold (or rented) via the internet and supported through advertising. A Yahoo! acquisition gives Microsoft the ability to manage the distribution of their products as the Internet alters the business landscape over time. A few important points about this acquisition: 1.) Yahoo! would immediately bring Microsoft a broader platform in paid search and display advertising, and would also help monetize and support other Microsoft online offerings such as MSN, aQuantive, Live service, social networking, and mobile applications. 2.) Yahoo! also brings critical mass in instant messaging and web-based mail products, which are important drivers of traffic. 3.) Microsoft is in need of web-based engineering talent, and this has historically been Yahoo!'s core expertise. Yahoo! possesses valuable software and data center expertise, and this knowledge capital would give Microsoft an excellent opportunity to reposition the company as a technology innovator. This acquisition pursuit is likely to go on for a while – we will keep you apprised as events unfold.

During the next 24 months Microsoft is on track generate more than $30 billion in cash for shareholders, on top of over $20 billion of cash and cash equivalents that currently reside on the balance sheet. The company continues to return this large cash hoard to shareholders through an aggressive share buyback program. Microsoft has purchased $4.0 billion of stock in the past two quarters. We are still very bullish on Microsoft's future business prospects.

Our **Financial Service holding**, Berkshire Hathaway, will most likely report mediocre results for the 1st quarter, 2008. During the past 24 months, Berkshire's tremendous results are attributed to Mr. Buffett's willingness to cover large catastrophic risks when other insurance companies were hesitant due to the high hurricane activity experienced during 2005. Given virtually nonexistent 2006 and 2007 hurricane seasons, Berkshire Hathaway achieved once-in-a-lifetime back-to-back results, whereby premiums earned virtually fell to the bottom line.

In 2008, we expect Mr. Buffett to significantly scale back the company's coverage of catastrophic events such as hurricanes, leading to underwriting results that will not meet the past two years performance. We are not concerned with Mr. Buffett's decision to pull back Berkshires catastrophic insurance coverage throttle. Insurance is a business where discipline is not only a requirement for profitability, but a necessity for long-term survival.

Warren Buffett maintains a passionate desire to continue growing Berkshire Hathaway. Even with a pullback in catastrophic insurance underwriting, Berkshire Hathaway is gushing cash. Berkshire still maintains over $40 billion in cash and cash equivalents on its balance sheet, and is leveraged to grow earnings when Mr. Buffett invests this large cash position – and opportunities have surfaced during the 1st quarter credit crunch. We will watch Mr. Buffett allocate this cash hoard, and will support his patience during tumultuous times in the market. In summary, we remain pleased with Berkshire's progress, and are excited to watch this company increase in value each day.

Our major **Retail holding**, Home Depot, had a tough time in 2007, with home repair and remodeling slowing while the company was in the midst of a transition. During 2008, we expect the home repair and remodeling market to continue to remain sluggish. With this said, Home Depot is making progress on several fronts. Home Depot's new merchandising, in-store, and supply chain initiatives are beginning to stem market share erosion, and the company's higher profit margins display a well-executed promotional environment. In layman's terms, Home Depot is not selling merchandise during difficult economic times by offering large discounts that ultimately reduce their profitability. Home Depot's strategy of reinvesting in associates and in-store experience should position the company for stronger operating performance when the market recovers. Overall, while the environment remains a significant challenge, Home Depot looks to be operating better than the past several years. The company is executing the right strategies, obtaining widespread employee buy-in, while customers are seeing early signs of traction against higher operational standards.

The turnaround at Home Depot's retail stores will continue throughout the rest of 2008, and into 2009. In the meantime, the company should earn approximately $1.80 per share under recessionary conditions, and with a solid dividend yield of 3.1%, investors are being paid to wait until the economic cycle turns around. When the recovery does come, Home Depot's consistent focus on improving operating performance and asset productivity should pay rewards. Basically, we think the company is doing the right things, under the right circumstances, and we remain committed owners of Home Depot. Our plans have not changed, and we will be holding this company for the long-term.

Our **Media Division** continues to grow and supply "great content" to customers. We strongly believe that a concentrated investment in content providers will pay handsomely in the future. As we stated earlier, we increased our holding in Disney. Our other large media holdings, Liberty and Comcast, continue to grow and add shareholder value.

Our investment in Liberty Media now consists of three tracking stocks—Liberty Capital (NASDAQ: LCAPA), Liberty Interactive (NASDAQ: LINTA) and Liberty Entertainment NASDAQ: LMDIA. Liberty Capital has vast holdings in public media conglomerates such as Time Warner, Sprint, Motorola and Viacom, as well as many private holdings. Liberty Interactive is a fast-growing company, with 98% ownership of QVC, 22% ownership of IAC/InterActive, and 20% ownership of the travel distribution service, Expedia. Liberty Entertainment holds a large interest in DIRECTV, as well as Starz.

Throughout the past two years Liberty Media has simplified their company structure by monetizing media assets within their portfolio. This action is largely complete and the company's separate units should each increase in value. For example, the recent Liberty Entertainment transaction provided the company an opportunity to gain greater economic control of DIRECTV. Liberty Entertainment announced that it has purchased over 78 million DIRECTV shares, which increases its ownership to approximately 48% (from 38%). We believe that this is another step in a series of transactions that will eventually lead to Liberty Entertainment consolidating DIRECTV.

We also have a major position in Comcast, the largest cable provider in the United States. Over the past decade Brian Roberts and his management team have consistently demonstrated an ability to deliver superior financial results. Comcast continues to aggressively roll out their "triple play" package which combines cable, phone and Internet service. The additional revenue from this strategy virtually falls to Comcast's bottom line as the company's cable infrastructure remains intact. We have stated in the past that Comcast is leveraging their cable assets, and should grow free cash flow at approximately 32% per year over the next five years – from \$2.6 to \$8.1 billion. During the 1st quarter, the company announced its intent to return excess cash to shareholders by instituting a \$0.25 per share annual dividend and repurchasing \$6.9 billion of stock in stock at an accelerated rate – \$3.5 billion, or 6% of equity will take place in 2008. Combining the dividend and stock repurchase program, investors will receive a 7% annual return on each owned share during the next several years at Comcast's current price. We are pleased with this announcement and Comcast will remain a long-term position within our portfolio.

Our **Commodity holdings,** primarily Barrick Gold Corporation, Central Fund of Canada, and Chevron have had an excellent 1st quarter. Barrick continues to build a new generation of mines around the globe and maintains the lowest total cash costs among the major gold producers. Barrick is executing a strategy that should differentiate the company in the investment marketplace. The company has removed the majority of its corporate gold hedges to expose itself to higher gold prices, with the exception of the 9.5 million ounce gold hedge surrounding their new Pascua Lama mine in Chile. Although this hedge commits Barrick to selling gold ounces at a significant discount (less than \$500 per ounce of gold), it only represents a little over one year of the company's production. In addition, in the past few quarters the company has embarked on a strategy that, if completely executed, could effectively eliminate the burden associated with its remaining hedge book. Barrick converted approximately 1.7 million ounces of the 9.5 million ounces of forward sales into floating deferred contracts. The program to convert ounces into floating contracts takes a positive view of gold prices and effectively "locks in" any losses associated with the forward sales program. As of the end of the 2007, the "locked-in" loss is now \$775 million (1.7 million ounces at \$456/oz below the spot gold price) regardless of the future gold price. Basically, the 1.7 million ounces are now unhedged and shareholders will receive any increase in gold prices going forward.

Barrick has also accumulated large gold (and non-gold) mining deposits that will allow the company to have sufficient replacement ore bodies in the future, and the company is positioned to obtain the highest earnings per share in the industry. Barrick's focus on maximizing their gold exposure, along with returning cash to shareholders will eventually be an economic benefit to owners. This strategy is unusual for a mining company, as most competitors attempt to spend profits on finding the next "gold strike." It is our opinion that

Barrick's value continues to increase due to these actions, and the company's stock price will reflect this increase in value.

We also maintain a sizable investment in gold and silver bullion through our interest in Central Fund of Canada. Central Fund of Canada is a specialized investment holding company that purchases gold and silver in the open market and stores the bullion in a bank vault. Central Fund's net assets at market value are approximately $1.6 billion, which is represented by approximately 50% gold bullion and certificates, 48% silver bullion and certificates, and 2% cash, marketable securities and other working capital amounts.

One of the reasons we initially purchased gold and silver was due to our belief that the value of the U.S. dollar will deteriorate over the long term, and unfortunately this continues to be proven as a correct assumption. We have not changed our view on this principle, and believe that our country's current loose monetary policies and desire to save the broken banking system (due to the mortgage debacle) will result in a continuous deterioration of the U.S. currency. Gold has now risen to around $925/oz during a period in which the dollar continues to lose its relative strength against world currencies. While changes in the dollar's value will continue to be an important factor in determining the price of gold, in the future it will not be the only driving issue. Continuing concerns regarding the geopolitical landscape and the economic implications stemming from higher oil prices are other factors that still support an argument for higher long-term gold prices, along with a growing world money supply – which leads to inflation.

Our investment in Chevron, a leading international integrated oil and gas company with operations worldwide in a variety of energy segments, continues to do well as energy prices increase. Our interest in the integrated oil companies, specifically Chevron, is due to rising oil prices due to long-term growing gap that exists between supply and demand. Daily worldwide oil consumption is expected to be approximately 88 million barrels of oil per day, while production is projected to be around 86 million barrels per day. The widening difference between consumption and production is leading to higher oil prices, despite any short-term oil price movements due to political instability.

Our continued interest in Chevron is due to the company's increase in the proportion of deepwater projects within their portfolio, which climbs to a sector-leading 20% by 2011. This portfolio shift allows Chevron to increase the cash received per barrel of oil (at today's prices) as the development expenses for these deepwater sites have already been completed. Deep water oil fetches higher prices on the open market. It remains our opinion that the price of oil is going to "plateau" at a higher level in the future than it has in the past as the growth of economies like China and India lead to increased energy demand (although we do not have a price in mind).

Chevron is expected to earn approximately $10 per share in 2008. In our opinion, the current valuation of Chevron (and other oil companies) does not reflect their earning power or higher long-term energy prices.

Fixed-Income Investments

The Vanguard Intermediate-Term bond index was up 3.2% for the first 90 days of 2008, as the Federal Reserve continued to aggressively reduce short-term interest rates and pump money in the financial system to create liquidity.

We continue to emphasize several points about fixed-income instruments that concern us. Several risks associated with this so-called "secure investment vehicle" still loom, including issues surrounding bonds such as the possibility of rising interest rates and greater chances of default. Unfortunately, bond defaults are still in the early stage, and we will continue to see bank write-downs over the remainder of 2008. During the next 12 months, over $400 billion of homeowner mortgages are due to be reset at higher rates. Many households will not be able to meet their increased payment obligation and will be forced to default on their loan. Stay tuned as the ripple effect from loan defaults move to auto loans and credit cards.

In the past few months, we have had several tranches of treasuries, municipal, and corporate bonds come due. We continued with our strategy of avoiding longer-term fixed-income investments, which are more sensitive to rising interest rates, and placed the majority of the proceeds in a mix of short duration fixed-income securities (one to three years), earning approximately 5.5% to 8%. As we stated earlier, our annual returns earned on short-term fixed-income investments remain higher than those available on longer-term fixed-income investments. While due in part to the market’s long-term expectation of slower economic growth, the major reason for the low returns offered on long-term fixed-income investments is the continued speculative behavior of investors “betting” that long-term rates will continue to fall as the Federal Reserve lowers short-term rates, leading to a short-term increase in the principal of these bonds. We have avoided this speculative investment activity, and will maintain our attitude of finding the best yielding securities, understanding the risks we are taking with each individual fixed-income allocation.

In summary, we continue to be comfortable with our current businesses and the future worldwide prospects for each of our operating companies. We are also comfortable with our fixed-income investments and feel the returns are fair for the risks we are taking. We want to assure you that we continue to be mindful of the risks in today’s markets, and will allocate capital in such a manner as to minimize any “long-term” effect on the value of our holdings.

Thank you for your continued support. We look forward to serving you during the remainder of 2008, and wish you and your family a great spring season.