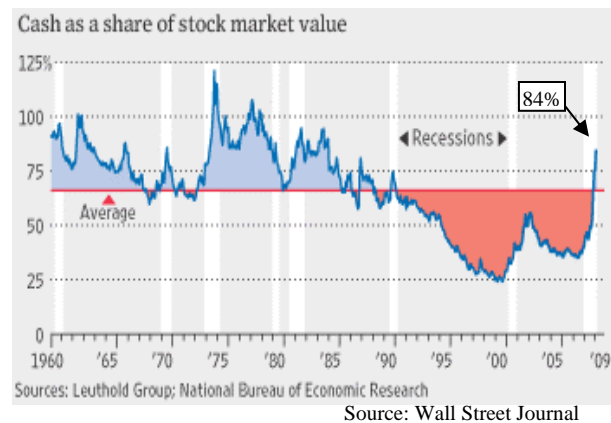


Quarterly Commentary

1st Quarter 2009

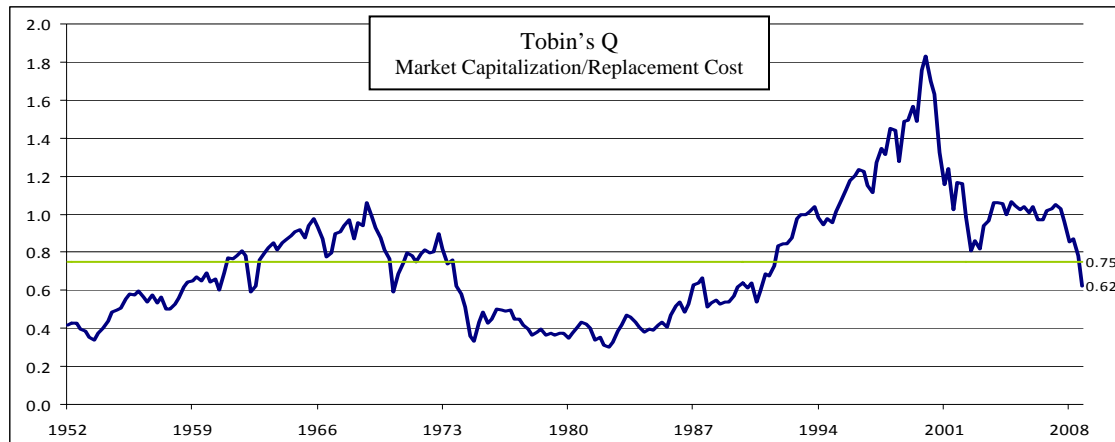
In one of the most agonizing torture scenes ever portrayed in movies, Dustin Hoffman's character in the movie Marathon Man, Babe Levy, finds himself imprisoned in a warehouse in New York City. His captor is the former Nazi SS dentist, Dr. Christian Szell played superbly by Laurence Olivier. Szell repeatedly asks Babe the hauntingly simple question, "Is it safe?" When Babe is unable to answer the question, not knowing what Szell is asking, he undergoes the most torturous dental procedure imaginable.

This question, "Is it safe?" continually arises in conversations that many investors are having due to the high degree of fear prevalent in today's investment climate. Investors routinely desire comfort and too often pay an incredibly high price for that comfort. Today, what appear to be inherently safe securities (cash, U.S. Treasury Bills, and U.S. Treasury Bonds) mainly appear safe because they have performed relatively well lately. They have been appreciating, or at least holding their own, when almost nothing else has. Investors have become more and more risk averse as evidenced by the adjacent chart reflecting that cash as a share of stock market value is at 20-25 year highs. We believe that investors are paying an extraordinarily high price for comfort and safety and are likely to be disappointed with the future investment returns of these "low-risk" asset classes going forward.



Stocks, on the other hand, have been rapidly declining in price since October 2007, and are considered "un-safe" by most investors today. We believe that "safety" is defined by price as it is compared to intrinsic value of a security. We would argue that stocks today are less risky, not more risky, than 17 months ago. In our opinion, low prices are exactly what make stocks less risky today. From its peak to trough, the S&P 500 Index declined 57%, truly a gut-wrenching experience. However, unless there has been a corresponding collapse in their business values, stocks should now be considered less risky. The following chart reflects this relationship between stock prices and a measure of business

value. Tobin's Q, developed by James Tobin in 1969, is a ratio of stock prices compared to the replacement value of the book equity. Replacement value differs from book value primarily in two ways. First, book value is reduced by accumulated depreciation. Second, during periods of high inflation, book value would not fully reflect the cost of replacing a company's assets. What we take away from this chart is that, from this measure, stocks are as cheap as they have been in approximately 20 years. When we look at the companies in which we have invested on your behalf, we are confident that they could not be rebuilt from scratch today for the price reflected in today's stock price. Many of your companies have created sound businesses and accumulated tremendous assets over multiple generations.



Source: Board of Governor's of the Federal Reserve System

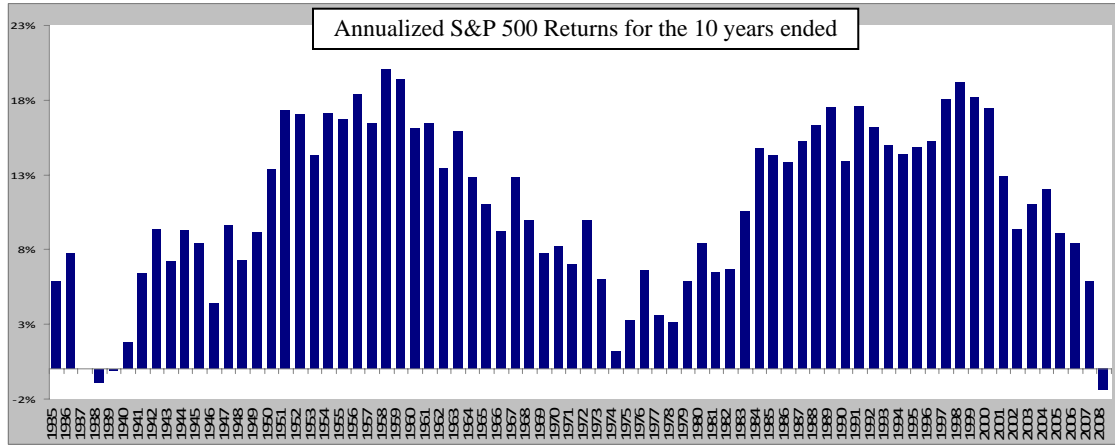
Other valuation metrics, whether they are Total Stock Market Capitalization to GDP, Price to Long-Term Trend Earnings, Price to Book Value, or Dividend Yield, all say the same thing. Stocks are attractively priced to provide high future returns. We strongly believe that the primary predictor of long-term future returns is valuation at the starting point. Put simply, high long-term future returns are likely when starting valuations are low. Currently, our composite equity portfolio has a very low Price/Earnings ratio of 7.97, a Price/Book Value Ratio of 1.59, a dividend yield of 3.09%, and a low Debt/Total Capital of 20.61%. This is why our firm's Buy List for new clients is approximately twice as large as just one year ago. This availability of attractive investment opportunities is what we were hoping for a year ago. Unfortunately, it has taken a major credit-induced recession and the fear that comes with it to provide these opportunities that excite us. We must trust our investment discipline. To do otherwise would be grounds for dismissal.

At some point, the economic clouds will begin to clear. Seeds of economic improvement are actually being sown today. Recessions, and we are in a doozy, cause a rapid change of consumer and investment behavior. This change in behavior caused by low confidence actually starts the corrective action necessary to build a solid economic base from which to grow. As easy credit is no longer available, businesses and consumers become more conservative by cutting costs, lowering capital spending, and getting their economic house back in order. Inventories are reined in. Future decisions begin to be based on conservative assumptions rather than wildly optimistic projections. Many of these long term "good" things are usually interpreted in the short-term as "bad" things. Declining economic activity, reduced profitability, layoffs and rising unemployment, as well as

foreclosures and bankruptcies are all extremely painful. However, from a long-term perspective they are unfortunately necessary to clear the market in which to build a solid base. Our primary question is whether or not the government will allow this to occur.

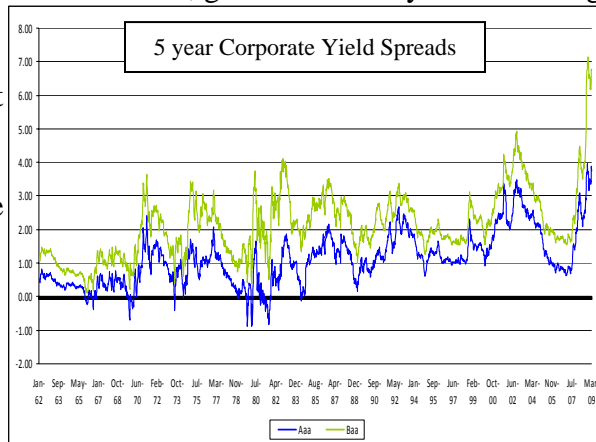
We are starting to see some signs of the “bad” not getting worse. Housing affordability, a necessary catalyst to naturally clear the excessive housing inventory, has shown significant signs of improvement. Housing transactions are just barely beginning to increase. At least temporarily, durable goods orders have stopped declining. The improving savings rate is clear evidence that, as a nation, we are beginning to live within our means. Remember, things are rarely as good or as bad as they seem.

We fully appreciate the roller coaster ride that our clients have experienced over the last nine months. Almost everyone has been affected by the downturn in the economy, their businesses, their job security, and their investment portfolios. You might ask, “Why should I be on this roller coaster?” After all, the stock market has just had its worst 10-year period of returns since the Great Depression (see chart below).



Source: ICMA-RC, Ibbotson Associates, Inc.

However, when we look at investment alternatives, what do we see? We see traditionally low-risk assets like U.S. Treasury Bonds as unattractive and likely to produce sub-par returns. Studies show a high correlation between long-term future returns for bonds and the yield at the starting point. The R-squared on this relationship is an extremely high 0.91 (1.0 would be perfect correlation). We believe that, given their low yields resulting from panic buying by risk-averse investors, long-term U.S. Treasury Bonds could be the most dangerous asset class on the planet. On the other hand, we are starting to become more enthusiastic about intermediate corporate bonds (see adjacent chart) as their yield spreads and, more importantly, their absolute yields are beginning to look more attractive. Likewise, high grade intermediate municipal bonds are more

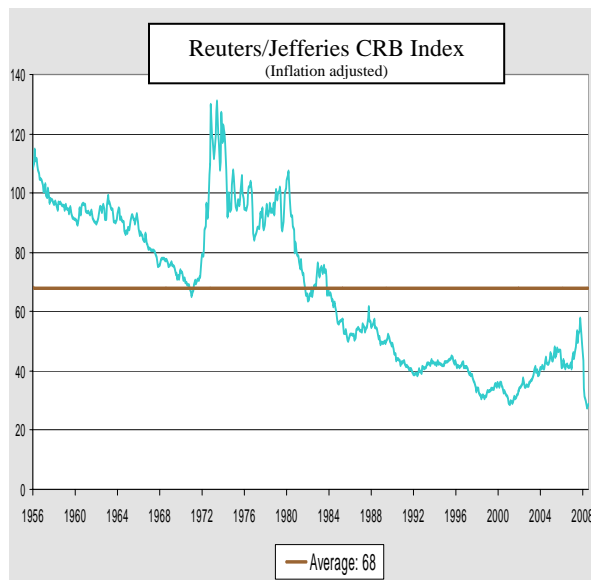


Source: Federal Reserve Bank of St. Louis

attractive. Then we see stocks priced for very attractive expected returns. We can not help but notice that the value investors that we have always respected the most, people like Warren Buffett, John Neff, Prem Watsa, Steve Leuthold, Jeremy Grantham, and Marty Whitman are newly and decidedly optimistic about future stock returns. Like us, these investors base their current optimism on valuation. We may all fish in different ponds, but fundamental valuation is the common thread in our investment decision-making.

While we thought in 2008 we had positioned our clients pretty well to avoid a credit-induced downturn in the stock market, our clients' equity portfolios could only avoid the downturn for so long. By the middle of 2008, we thought we had dodged the bullet, but our heavy commodity exposure got caught in the cross-hairs with everything else, and second half returns suffered. Our point in bringing this up now is not to make excuses about the past, but to recognize the investment opportunity before us today. At current low valuations, we feel that we have

been granted a mulligan. If you look at the nearby chart, you will see that commodity prices on an inflation-adjusted basis are back to new fifty-year lows. Actually, this chart only goes back to 1956, but by this measure, inflation-adjusted commodity prices are actually lower than at any time in the last one hundred years. Besides 2002, the only time this measurement ever approached the currently low levels was during the Great Depression back in the early 1930's. By looking at this chart, you might also be able to understand one of the reasons we were not actively selling all of our commodity stocks last year.



Source: Commodity Research Bureau

While they were strong performers for our clients from 2002-2008, commodities had generally been in a thirty-year bear market. Investors were generally quite skeptical of embracing these companies as evidenced by the significant under-weighting by institutional investors in these stocks. This under-weighting continues today. The main reason we were not selling many of these stocks was due to their modest valuations. As you might imagine, their formerly "modest" valuations would now be classified as "very cheap" and we continue to favor many of these commodity stocks. We continue to emphasize real businesses with tangible assets given our healthy respect for the potential for rising future inflation resulting from unprecedented government fiscal and monetary stimulus.

What about Foundation Resource Management?

We believe that what a company does during the tough times, will be a significant determinant to its future. Our company continues to improve in many ways. Most importantly, we are improving the quality and quantity of our research. Our two younger CFA's are working alongside the "Old Mossbacks" in improving our research efforts. We

have twice the capacity and, we would argue, **more** than twice the brainpower than we had 15 months ago. Likewise, now our younger colleagues have had the opportunity to meet many of you in client meetings. One side benefit is that learning cuts both ways. That is one of the great things about our business; we never stop learning. Many people might say that 2008 was a terrible time to be adding staff. We would beg to differ. While we certainly did not anticipate the rapidly declining stock and corporate bond markets, we believed that stocks and corporate bonds would once again provide attractive investment opportunities. The fact that we added research talent when we did is exactly what allowed us to take advantage of these bargains when they were created in very short order. This process never stops.

Likewise, our administrative staff just gets better and better. We can not say enough good things about them. They are constantly challenging us to do things better. They are the backbone of our firm's trading, trade settlement, accounting, custodial account reconciliation, proxy voting, client presentations, and performance measurement. Likewise, they work closely with our clients, custodians, vendors, and suppliers. They do everything in their power to see that the investment team's time is focused on research and working with our clients. Our clients may not realize that our administrative staff of five dedicated professionals has a collective 92 years of experience in the investment field. Need we say more?