

All Cap Equity – First Quarter 2009 Performance Update				
	Q1	1 Yr.	3 Yr.	5 Yr.
Reinhart All Cap	-8.97	-30.10	-6.32	-0.57
Russell 3000	-10.80	-38.20	-13.55	-4.59
S&P 500	-11.01	-38.09	-13.05	-4.77

MANAGER COMMENTARY

During the first quarter, we continued to focus our research efforts on analyzing the fast changing U.S. and Worldwide economic and political data. These efforts remain challenging as worldwide governments are initiating new monetary, fiscal, and regulatory programs daily. The short, intermediate, and long-term impacts of these programs on the economy and financial markets are uncertain because so many of the programs have never been tried before. The only thing that is certain is that the Obama Administration's actions indicate that it is willing to do whatever it takes to stabilize the economy. The question that we ask ourselves is whether any government actions are enough to significantly alter the consumers' recent shift in behavior to thriftiness. The "paradox of thrift" is working far faster and appears to be far more powerful than we envisioned.

Consumer spending represents \$10 trillion of the U.S.'s \$14 trillion economy. As this spending has slowed it has led to shrinking demand, reduced corporate profits, and falling employment across numerous industries. More troublesome, this cycle can create a negative feedback loop where falling employment creates more shrinking demand and further reduced corporate profits, thereby, leading to additional falling employment.

We are monitoring the economic data daily to determine if the government's actions can break these potential negative feedback loops and stabilize the economy. As avid believers in a properly regulated free-market economy, we are skeptical that more government programs will magically fix the economy's problems. We are also troubled that the government's fundamental solution appears to be more spending, more debt, and more leverage when these were the primary culprits causing the current worldwide economic problems. We are convinced that the economy needs to de-lever to restore its ability to grow within its means and the government's actions are adding numerous unknowns to the equation of how long the de-levering process will take. The current forward looking economic data does not provide clarity to these unknowns as there are both negative and positive indicators.

First the negatives: the credit markets have not returned to normal and consumer and corporate delinquencies continue to rise; commercial real estate vacancies have begun to increase, commercial property valuations have begun to fall, and non-residential construction contracts are -40%; ISI (International Strategy & Investments) company forward looking business surveys continue to decline, capital spending continues to deteriorate, core deflation appears likely into 2010; and unemployment claims, which have been a perfect historical indicator for the end of recessions, are still rising. In addition, upcoming first quarter corporate earnings reports and guidance is most likely to be negative.

Now the positives: the government's actions have reduced the 30 year mortgage rate to below 5.0% resulting in significant increases in refinancing and new home purchase activity; the worst regional real estate markets appear to have stabilized; new home inventories have fallen to ten year lows; the money supply is growing at historically unprecedented levels; the consumer is experiencing lower housing, energy, tax, and food costs; tax refunds are at the highest level since 2002; money market assets are >45% of the total market capitalization of the S&P 500; equities as a percentage of household financial assets have fallen to 27% from their peak of 54% in the first quarter of 2000, and most importantly, ISI's economic forecasting model is projecting growth in 2010.

As you can see from the previous two paragraphs, there are numerous negatives and positives that make the short and intermediate-term economic and financial market outlook uncertain. As a result of this uncertainty, we continue to position the portfolio in a conservative manner with preservation of capital remaining the primary objective.

INVESTMENT PHILOSOPHY

- **Life Cycle Investing:** Finding companies in the recovery or high profitability phase of the life cycle.
- **Fundamental Research:** Bottom-up process with a macro overlay.
- **Disciplined Process:** Consistent and quantifiable system based on sound investment tenets.

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