

Equity Commentary

Market Highlights

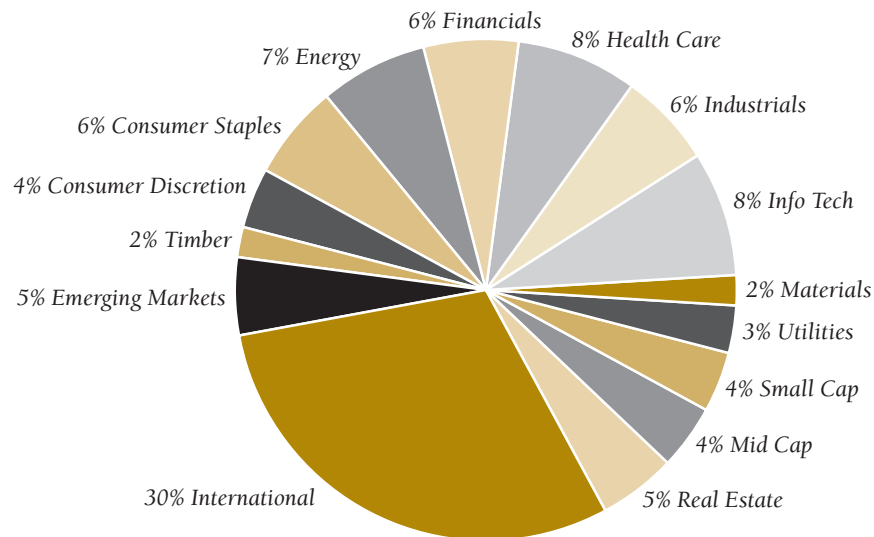
The fourth quarter was a continuation of the prior four quarter's decline, only worse. The recessionary trends which emerged earlier came into full swing by year's end and the carnage was universal. All ten S&P sectors had significant losses. Cash was the only place to hide from the sell-off. Even gold, the traditional safe haven, saw declines as did oil and other commodities.

Cash is at record levels for several reasons. Credit markets have frozen and personal consumption has plummeted. Consumer confidence is at the lowest point in the measure's forty year history. Both individuals and businesses have quit spending. Manufacturing activity hit a 26 year low, holiday sales were sluggish and housing continued its slide.

Signs of a deepening recession were everywhere. Auto companies asked Congress for bailout loans, several retailers bankrupted, causing the malls to struggle, and unemployment rose steadily.

On the bright side, price/earnings ratios on stocks are at multi-year lows and dividend yields currently exceed the yields on government bonds. The great unknown is whether these earnings and dividends will hold up through the economic downturn.

TCVA Equity Model Portfolio



Performance Attribution

The table below shows the performance attribution breakdown for the last 14 quarters. Our consistent success is based in the simple concepts of diversification, patience and listening to the experts. Research has shown that over the long term, value beats growth, small cap and mid cap beat large cap and the addition of alternative asset classes dampens volatility. It has also shown us that market timing does not work and that asset allocation accounts for over 90% of portfolio risk. Using a disciplined approach to applying these concepts to our clients' accounts has resulted in the success we have enjoyed over those 14 quarters.

Quarter	Stock Picking	Sector Weighting	Asset Allocation
3Q2005	+	+	+
4Q2005	-	0	+
1Q2006	+	+	+
2Q2006	+	-	+
3Q2006	+	0	-
4Q2006	+	-	+
1Q2007	-	+	+
2Q2007	-	+	+
3Q2007	-	+	+
4Q2007	+	+	-
1Q2008	+	-	-
2Q2008	+	+	+
3Q2008	+	0	-
4Q2008	+	+	-
Success Rate	71%	73%	64%

Third Quarter - Performance by Sector

