

April 15, 2009

Dear Friend,

It was a volatile first quarter. While investors initially bid up stocks in anticipation of the new president's new approach to solving the financial crisis, the revelation that the "new approach" was pretty darn similar to the old approach of our old president - just with the addition of massive deficit spending - sent the S&P 500 down to levels not seen since 1996. In the end though, economic data which showed that the rate at which the economy is contracting has slowed, was sufficiently good news to drive the market up 20% off its March lows.

For the quarter, our Diversified Equity Composite declined by 6.2% compared with the S&P 500's 11.0% decline. Our Concentrated Equity Composite declined by just 1.0%.¹ By investing the bulk of your assets in defensive sectors like healthcare and food while at the same time investing a smaller portion in higher risk/ higher reward small-cap value stocks, we were able to decline significantly less than the market for the quarter and position ourselves for the economic rebound when it comes.

This quarter we made new investments in the healthcare and defense industries, as well as in cyclical companies trading at, or below, book value. In a better economy these cyclical companies -- a bank, a cell phone company and a building products manufacturer -- have the potential to be a "triple play" with an increase in revenue leading to higher margins and a higher valuation. As Wayne Gretzky once said "You have to skate to where the puck is going, not where it has been." We are positioning our portfolios for an economic upturn now, before it happens.

¹ Preliminary performance figures are unaudited. Past performance may not be indicative of future results and every investment program has the potential for loss as well as profit. The diversified equity composite is the dollar-weighted linked monthly return of those accounts sharing the objective of a diversified equity portfolio that are greater than \$250,000 in size. The concentrated equity composite is the dollar-weighted linked monthly return of those accounts sharing the objective of a concentrated equity portfolio that are greater than \$250,000 in size. Accounts are added to the composite on the first day of the month following our first 30 days of managing the account and must be in the composite for a full calendar quarter before inclusion. Portfolios are excluded as of the last full calendar month under management or at such prior date as Integre Advisors receives notice of termination. Individual account results will vary from that of the composite based on fee structures, investment restrictions, the timing of contributions and withdrawals and other factors. Comparisons to the S&P 500 Total Return are for informational purposes only, as the composites may hold securities not in the S&P 500 and may have more or less volatility and risk than an investment in the S&P 500.

When will it happen? No one knows for sure but we are hopeful that the stock market may have bottomed because it declined to such staggeringly low levels in part due to a liquidity crisis, specifically the liquidity needs of pension funds and endowments that had over-invested in hedge funds and private equity. As hedge funds “threw up their gates,” suspending withdrawals, private equity funds continued to make capital calls from these institutions. That pressure, combined with these institutions’ sudden inability to contribute investment profits toward university and pension fund operating costs, resulted in a cash squeeze with institutions being forced to raise cash to cover these costs by selling whatever risk-assets they could – stocks on the open market. Added to all of this downward market pressure was pervasive negative investor sentiment and psychology, with lower prices causing investors to sell as they could no longer emotionally, or financially, bear their losses. It may not make sense, but stocks are one of the few items that people want more of the more expensive they are and less of, the cheaper.

As for the economy, there have been some encouraging signs that things are bottoming. Bank executives have said that January and February were profitable; more houses were sold in February than January; and February saw a significant jump in new orders for manufacturers. From our experience in the recessions of 1990, 1998 and 2003, the first sign of a bottom is things getting less bad. The second sign is when companies start reporting better than expected profits as they have laid off so many employees that their margins expand when revenue finally comes in a little better than expected.

We believe that the outlook for the next ten years is promising after the S&P 500’s disappointing results over the previous ten years. During the quarter, the S&P 500 valuation hit a 20-year low while its dividend yield hit a 20-year high. Sentiment towards equities is still very negative and we have an activist administration that, despite its flaws, seems determined not to repeat the mistakes that turned the 1929 Crash into the Great Depression. The recent economic news (see above) even provides some reasons for medium-term optimism as well.

Of course there is still no shortage of gloom, but that is typical of market bottoms just as there is no shortage of enthusiasm at the top. We will proceed with prudence, but we believe this is the best opportunity to invest that we have seen in 20 years.

With all best wishes for a pleasant spring.

Sincerely,

Manny Weintraub, CFA
Managing Director