QUARTERLY COMMENTARY
First Quarter 2009

On the heels of the worst year for common stocks since 1931, major world equity markets opened 2009 with another double-digit quarterly decline. Most investment quality bonds provided flat or negative returns. Risk-free U.S. Treasury Bills provided essentially no return. As was the case in 2008, it was extremely difficult to preserve and grow assets. Most investment managers have lost huge amounts of client assets over the past five quarters.

Given such far-reaching asset devaluation, we are very pleased to have produced a slightly positive return in the first quarter. As I write this commentary a few weeks into the second quarter, Mission clients have also had a positive return dating back to the beginning of 2008. Very few asset managers can make that claim.

Two key factors have enabled our clients to avoid the carnage that has devastated most investment portfolios. First, a flexible asset allocation policy has enabled us to lessen our clients' exposure to rapidly declining common stocks. Second, a solid understanding of what represents good value has led us to own assets that have outperformed what most managers have chosen to own. The stocks we have owned over the past year and a half have not escaped unscathed, but they have on average performed better than the major stock market indexes. Recognizing that the stock market in general was trading at historically overvalued levels, we kept our exposure to equities well below normal while the stock market plummeted over the past year and a half.

The difficult equity market environment has shifted our focus to maximizing return on the non-equity portion of the portfolio -- not an easy task. U.S. Treasury notes and bonds have yields just minimally above historic lows. We consider the risk/reward alternative there unattractive. At such low yields the consequences of being wrong are far more substantial than the rewards for being right.

Clearly, higher yields are available from corporate and municipal bonds. We have shied away from these bonds as well, however, because we expect there to be some surprise defaults even in the investment grade ranks. A few such surprises would contaminate the well and punish prices of otherwise solid investment grade issues.

We are left with a significant amount of short-term cash equivalents. A portion of that cash is invested in government guaranteed certificates of deposit laddered over a short maturity spectrum. This strategy builds portfolio yield and frees up more cash on a predictable schedule. Nonetheless, that still leaves us with an uncomfortable amount of cash. In the past we would have put such reserves in top quality, very short commercial paper. Currently such paper yields just about one-quarter of one percent, insufficient return to justify sacrificing the instant liquidity of a U.S. Treasury money market fund, which yields just above zero. That liquidity may be a redeeming feature, however, given our anticipation that strategic opportunities could arise very quickly in either stocks or bonds. We remain poised with enough liquidity to be able to take profitable advantage of such opportunities, should they arise. The potential returns from stock and/or bond investments could greatly overshadow the minimal yields earned by tying up those assets in additional certificates of deposit.

We are in far from ordinary times. Corporate earnings have collapsed. So dire are the immediate prospects that Standard & Poor's estimates that, following the third quarter of this year, the companies in its S&P 500 index will have cumulative negative earnings over the prior twelve months. That has never occurred before.

The past two years have seen the disastrous declines in stock and housing markets diminish household wealth by over 20%. The flagrant free spending characteristic of the past two decades has come to an end and is unlikely to be quickly revived. The need for households to rebuild their balance sheets will likely exert deflationary pressure for years to come. These conditions will serve as a severe headwind against progress in common stocks. On the other hand the government is unloading both barrels in its attempt to ward off a deflationary recession and to revive consumer and investor enthusiasm. We cannot know which force will prevail.

Given the uncertainty of this environment, employing a traditional fixed asset allocation investment strategy is highly dangerous. Such an approach is based on the assumption that historically normal investment performance will play out in the years to come. There is no guarantee that we will experience a close approximation of past investment results. The excesses in debt and derivatives over the past decade and a half have imperiled the financial system that we have known for generations. Only time will reveal in what form that system will emerge.

Over an uncertain future, it will be wise to build flexibility into both individual and institutional investment programs. Fixed allocations based on traditional assumptions could lead to continued losses of portfolio value if those traditional assumptions do not prevail.

In our year-end commentary, we forecasted that the stock market would experience a very significant rally in 2009. The rally that began in early March has already advanced by 25% to 30% on most major indexes. While we do not believe that the March bottom marks the end of the long weak cycle that began in 2000, we believe it likely that this rally should reach still higher ground as the year progresses. We added a few new stocks to client portfolios near the March lows, and we may add more on a further correction of the March-April rally.

We remain open to the possibility of adding a bond position should fears of inflation push interest rates notably higher. While awaiting such an opportunity we will attempt to produce a positive return from a low risk portfolio.

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