Largely believed, by himself and others, to be the greatest boxer of all time, Muhammad Ali was famous for what he coined "rope-a-dope"—the idea to lie on the ropes, conserve energy and allow the opponent to swing away until he tires and opens up weaknesses to exploit for an eventual counter-attack, and victory. It served him well, most famously in "The Rumble in the Jungle" when, for the first seven rounds, he allowed the powerful George Foreman to exhaust himself throwing punches that were either blocked or did little damage. In the eighth round, Ali landed a brutal combination that floored the seemingly unbeatable Foreman. It is largely regarded as the greatest strategic planning and execution ever demonstrated in a boxing match. It's also, perhaps, analogous to One Capital's investment strategy during volatile times such as these.

So long as there's due diligence and sound reasoning behind the decision, many times, the best course of action is not acting. When it comes to the recent market conditions, we're ultra-aware that our actions may appear to our clients to be inaction. Let us explain our analysis and philosophy.

We did not expect the subprime mortgage situation in the U.S. to have such a marked impact on the financial services companies we have purchased for our clients' portfolios. And we recognize that witnessing a decline in values to your portfolio is uncomfortable. While we are concerned that the subprime mortgage issues may be the blow that tips the U.S. economy into recession, we don't feel it will be a severe recession since, even before a recession is confirmed, the Federal Reserve, Congress and White House are collectively putting together stimuli to resuscitate this economy. In addition, it is important to note that in the last 12 recessions, stocks were up seven times and the average duration was just 10 months.

The mere threat of a recession is what has pushed the U.S. and Global equity markets into full correction mode. However, we see some great opportunities emerging from the market slide, especially when it comes to the financial services companies. Collectively this group of stocks is down 26% over the last year.

To wit:

Citigroup Inc:

Citi was hardest hit by subprime-related problems with $22 billion in write downs and additional loan loss reserves. In spite of bad news and a fourth quarter loss, Citi was profitable for the year – to the tune of $3.6 billion. The company is an incredibly diverse financial institution with profitable divisions from retail banking and retail brokerage to insurance, investment banking and corporate banking.

The stock trades at 7.9 x 2008 estimated earnings and 6.7 x 2009 earnings estimates and at just 1.2 x book value - which means we are able to own Citi paying just $1.20 for $1.00 of company assets plus the growth of their business.

Our Citi price target by end of 2009 is $54, which represents a 125% gain over the next two years. We expect the biggest portion of that growth coming in 2009.

It's crucially important to remember that most of the losses were write downs of existing asset values. Many of these assets will return to their par value over the next few years and create greater profits for banks like Citi.

Washington Mutual:

WaMu has strengthened its tier one capital, currently at 6.7% versus a target of 5.5%. As we write this, the bank has excess liquidity of $29 billion not including multiple additional lines of credit. WaMu is growing assets at 2-5% on its

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current asset base of $328 billion.

The stock today trades at 0.6 x book value or sixty cents for every dollar of assets and at 0.8 x sales. Furthermore, the stock is selling for just 10 x 2009 estimated earnings (earnings estimates that include almost nothing for their entire mortgage division).

We have a price target of $18 - $20 by end of year 2008, $28 -$30 by end of 2009. This represents a 100% - 115% gain in two years; very few stocks have that potential. In addition, WaMu may be a target for buyout. It's a very attractive retail bank with $3.3 billion pretax profit!

One might suggest that we might have cut the losses and waited until the market looked more favorable. On the surface, it's a tantalizing option. It's also one that has been attempted time and time again, and the strategy's failures litter the streets of financial history. Nobody, including One Capital, can successfully time the market – get in and out and back in again with absolute precision. And absolute precision is the only way this strategy succeeds…

In studying the returns of stocks over the last 37 years (9,247 trading days), missing just the fifteen best days (0.16% of days) produced a compound return of 8.97%. Being in the market for all the days, good and bad, produced a compound return of 11.23%. Staying fully invested, in up and down markets, generated 2.26% more return annually. That is, brace yourself, 114% more wealth!

Investing takes time and, as we have said repeatedly over the years, ours is a long-term investment perspective. If we believe that the companies we purchased are the best opportunity to grow wealth over time, and that view has not changed despite short term declines or circumstances, then we will continue to hold those companies in portfolios. Trading out of positions and potentially missing some significant gains simply isn't prudent.

We'll remind you, as we did in our December's Perspective, that the last time financial services stocks significantly underperformed was 1990. In that period, the group declined (24.3%) and nobody wanted to own bank stocks that were presumably going bankrupt. The ensuing twelve-month period produced a gross return of 44.3%, and the next four years produced 159% (21% annualized). Now is a time of tremendous opportunity.

While security selection is important, it is far less impactful on the performance of your assets over time than the structure of your investment portfolio - namely the asset allocation. If the volatility of today's markets, which are at extremes, is too much for you to tolerate, it's wise to review your asset allocation and investment policy.

We take very seriously our role as steward of your assets and hope that continuing to share our perspective relieves the anxiety you may be feeling.

Thank you for the confidence you have placed in our firm.