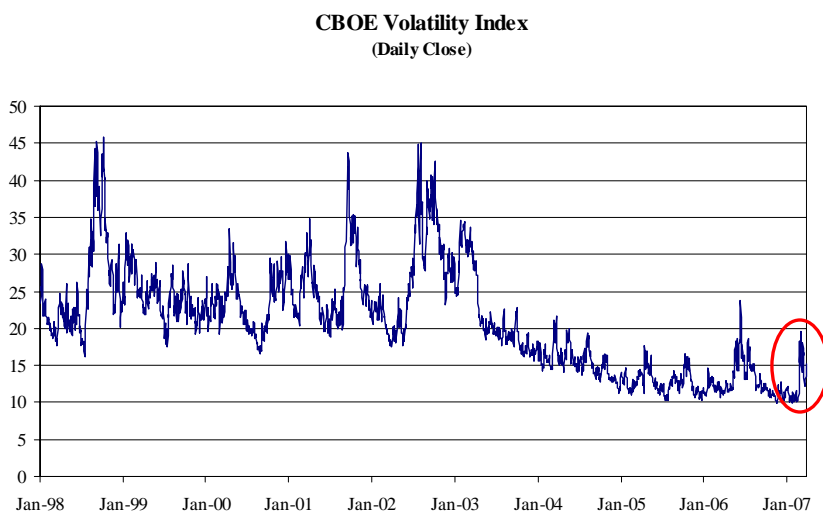




Quarterly Commentary: April 2, 2007

Volatility returned to the markets during the first quarter of 2007, reminding the public that investing is something that requires a concerted effort, sound judgment and strong conviction to participate. The popular measure of this phenomenon is the CBOE Volatility Index, commonly known as the “VIX”. After reaching stratospheric levels during the tech bubble and its aftermath, the indicator has trended down steadily in the ensuing years – that is, until February 27th.



Despite the increasingly sober expressions on the faces of CNBC commentators in recent weeks, we see nothing unusual or irrational about the recent volatility in the market, nor have we become concerned that something is seriously awry. We agree with Federal Reserve Chairman Ben Bernanke, who noted recently in testimony to some concerned U.S. Senators that the markets are working just fine. We have been without volatility for some time, so a little volatility may have been due. Further, the principal market indicators remained essentially flat despite the exciting ride.

	<u>DJIA</u>	<u>S&P 500</u>	<u>NASDAQ</u>	<u>Russell 2000</u>
Q1'07 Return	-0.9%	+0.2%	+0.3%	+1.7%

Those of us who live near earthquake faults know that pressures build and are periodically released. The stock market behaves similarly, and excesses are corrected. In the market, we are willing to live with uncertainty, as we do in life. But because we are risk averse, we try to build our homes on bedrock, and do the same with our investment portfolios.

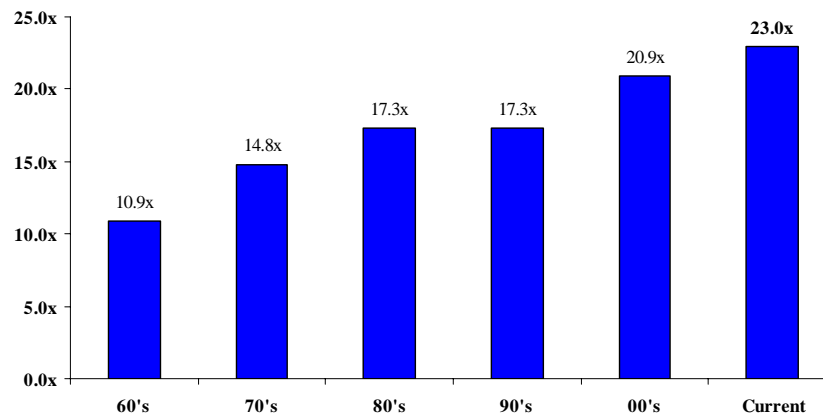
What is the investment equivalent of bedrock? We favor large multinational “Blue-Chip” companies because of their solid balance sheets, seasoned managements, durable competitive advantages and consistency of earnings. By investing in the shares of these companies, we dramatically reduce the risks that come from shifting business models, economic recession, liquidity crises, *etc.* – all of which can have cataclysmic results on smaller, poorly-financed



companies. But as important, we firmly believe that we hit bedrock only when the shares we hold are cheap relative to their intrinsic value. This is a condition that presently prevails with Blue-Chip, large capitalization companies, such as the ones we hold in your accounts. This condition clearly does not exist with respect to certain other popular classes of investments, such as small-cap stocks or residential real estate.

The 50 largest stocks in the S&P 500, as measured by market value, trade at a P/E ratio of 19x, while the 50 smallest stocks in the S&P 500 trade at a much higher P/E ratio of 31x. Should history repeat itself, which it is more than likely to do, this could spell trouble in the years ahead for small-caps, particularly relative to their large-cap kin. Real estate, which comprises the bulk of most Americans' wealth, is in a similarly precarious position, as valuation of that class of assets is at unprecedented levels.

Average Housing "P/E"
(US Median Home Price/Median Rent)



Against this backdrop, it gives us great comfort to own a portfolio of equities that trades at an average P/E of about 14x. By focusing our ownership on the best and "bluest," and buying shares when they are cheap, we create an opportunity to both protect our wealth and to position it to outperform small-cap stocks, real estate and other asset classes over the next several years.

It is too early for us to draw any firm conclusions with respect to the sub-prime mortgage loan issue, except to note that correcting the excesses will likely have ramifications that ripple through the system for some time. The fallout will be painful for a large number of individuals and institutions that dealt in this speculative financing vehicle. Nevertheless, we doubt that the problems will have a dramatic effect on the \$13 trillion domestic economy, nor on the businesses that we hold in your portfolio. We will do our best to evaluate the potential exposures we may have to this risk and steer well clear of it.

We noticed that Warren Buffett placed something of a help-wanted ad in his annual letter to shareholders for a professional to eventually succeed him as Berkshire Hathaway's investment chief. In the letter, Buffett describes the kind of person he seeks to allocate the



company's billions and to carry his legacy as the world's most successful investor. It comes as no surprise that brains and investment experience are important criteria for a candidate, but Buffett notes that such people aren't in short supply. More interestingly, he describes two critical attributes of an investor who would fit the Berkshire mold. First, the candidate must be "genetically programmed to recognize and avoid serious risks," and second, he notes the importance of a specific temperament, characterized by "independent thinking, emotional stability, and a keen understanding of both human and institutional behavior."

Our own help-wanted ad, placed late in 2006, yielded a gem. As you may know, we recently welcomed *John Dowling* to the Golub Group family as Senior Research Analyst and a member of our Investment Committee. We are pleased to inform you that John firmly possesses the personal attributes that Warren Buffett values so highly. We are very fortunate to have him. John, a Chartered Financial Analyst, brings eight years of experience in securities and financial analysis, having worked for such firms as Standard & Poor's, PricewaterhouseCoopers and Wells Fargo Bank, and most recently for Australia-based investment firm, Peters MacGregor Capital Management. Please say hello to him when you have a chance.

As always, we have included with this commentary your quarterly performance figures, management fee invoice(s), and a copy of your portfolio allocation as of 3/30/07. We have also included our firm's privacy statement, which discloses how we manage the personal information that is entrusted to us. Also, we are required to offer you a copy of our latest Form ADV, which is our registration statement with the SEC and state regulators. If you would like to receive a copy, please let us know and we will be happy to send you one. Finally, you are welcome to visit us online and access your account(s) at www.golubgroup.com. Please contact us to establish a login and password if you do not already have one.

Our best regards,

The Golub Group

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