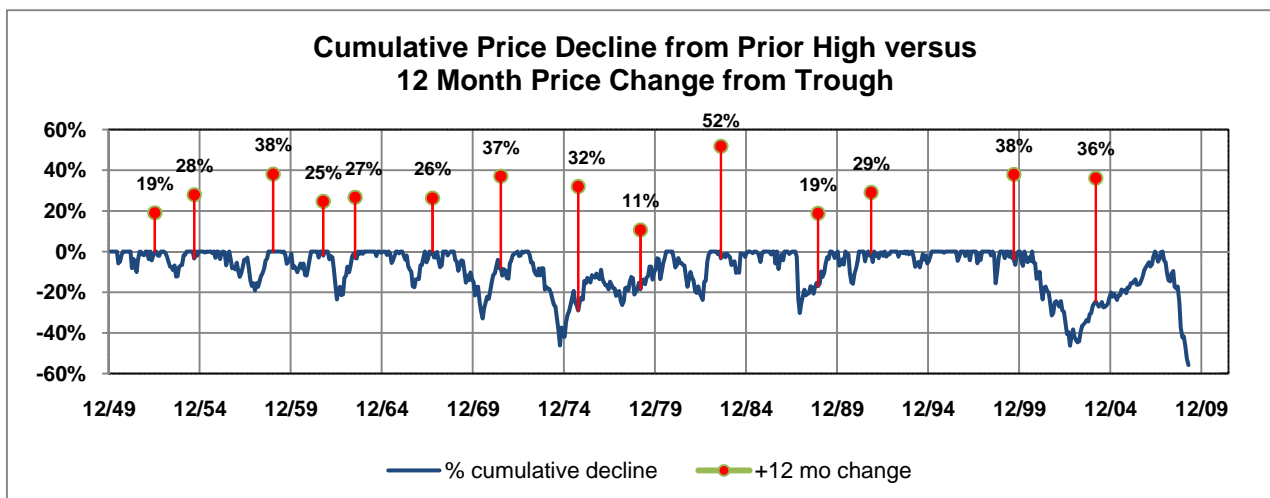


## Eagle Ridge Investment Management, LLC

March, 12 2009

In our year-end letter we said we expect 2009 will be a difficult, volatile year but one that should produce positive returns for equities. Well, with the first quarter not yet over and domestic stock returns down around 20%, investors appear to have their work cut out for them. Unfortunately, the daily onslaught of bad news seems only to bring more of the same. Listeners of Bloomberg News have likely become accustomed to the regular apologies from the morning hosts for delivering what seem to be only more dire reports.

There is no getting around the fact we are suffering one of the deepest recessions and the worst bear market in decades. There are, however, reasons for optimism. Unlike the many opinions we are inundated with by the media, the beauty of the historical record is its exactness. Notably, as the chart indicates, there have been numerous stock market declines of 20% or more, including three instances when stock prices declined by more than 48%. One year after the trough was reached, the market's average return has been 30%, with two-thirds of that return occurring in the first six months. While we do not mean to suggest we, or anyone else, will know when the market has reached its bottom, we are confident recovery will take place and that investors will likely be pleasantly surprised by the ensuing ascent of stock prices.



Economics has been referred to as the dismal science. In the current environment, one might conclude this is due to the steady flow of weak economic reports emanating from the Federal government. However, even buried in the reams of data from the Bureau of Economic Analysis is some powerful, good news. In the most recent government release on Personal Income and Outlays it was noted that the U.S. personal savings rate now *exceeds* 5%. When contrasted with our country's consistent flirtation with a negative savings rate throughout the past decade, the direction and magnitude of this change should not be understated. In literally a matter of months, Americans have changed their behavior to adapt to a new, more challenging environment. The implications of these actions, should they be sustained, are very significant. U.S. dependence on foreign sources of capital should lessen materially. This higher savings rate also has considerable relevance for our capital markets. Ultimately the owners of these savings will not be satisfied earning 1/10 of 1% on their cash investments and will seek higher returning vehicles, including stocks.

While on the subject of economics, it is interesting to note Economist and Nobel Laureate Paul Krugman, while somewhat critical of the President's stimulus plan (too little), stated that "even with inadequate policy measures, there will likely be a spontaneous recovery." We, however, are not economists; we are investors. As such, we are encouraged by the words of perhaps the world's greatest investor, Warren Buffett, in his just released annual letter to shareholders. Mr. Buffett reminds us to "never forget that our country has faced far worse travails in the past. Without fail we've overcome them." He concludes, "America's best days lie ahead." We agree.