



JULY 2008

Enclosed are your quarterly reports. We are grateful for your support and each of us at JCI considers it an honor and privilege to serve as your Investment Advisor. Please call on us anytime, and at your convenience. We are here to serve you.

From the desk of Eric Barden – Chief Investment Strategist

It's been a violent five months. Since finding a temporary floor on March 10th at 1,273 the S&P 500 rallied about 12% up to 1,426 only to collapse again to 1,214. As of this writing on August 6th, the S&P 500 is back above its March lows at 1,289. So, for all of the turbulence we are basically at the same place we were five months ago.

Arguably, the factors that are most contributing to the market's turbulence are in the process of finding some resolution. Oil prices have moved from a high of \$147 to \$118. It's quite possible that oil will continue to decrease in price, as people continue to conserve, and more oil supplies hit the market.

Much of the run-up in oil prices was due to increasing geopolitical tensions in Iraq and Iran. Most observers perceive that the region is stabilizing somewhat. Iran and Israel have moved back from the brink at least for the time being, and casualties in Iraq are as low as they have been since hostilities began in 2003.

The credit crisis has likely been the biggest obstacle for the market. Weakness in housing and the subsequent foreclosures have hurt the holders of mortgage backed securities. In some cases, the harm is irreparable. In others, government bailouts will likely occur to avoid widespread defaults. More banks will fail as the credit crisis impacts commercial & prime real estate.

The first step towards recovery is admitting you have a problem. We're not out of the woods yet, but the fact that we are no lower today than we were five months ago should be of some consolation. Even with all of the disclosure of bank failures and risks to institutions like Freddie Mac & Fannie Mae, we're still hanging in there. Markets bottom at the maximum point of uncertainty. From here, it seems that the direction of the credit crisis is more likely to be towards resolution versus increasing uncertainty.

You have likely seen a little bit more activity in your accounts than normal. Allow me to take this opportunity to explain some of the strategic adjustments that we're currently implementing

We sell a stock for three reasons. 1) A holding reaches fair value. We recently sold America Movil for this reason. 2) Investment strategies go in and out of favor. Recently international stocks, energy and materials, which led the market early this year, have begun to lag. We're responding to this by lowering our equity portfolio's exposure to international companies and basic materials. This was the motivation for the sale of BHP Billiton, our Australian mining company. 3) Fundamentally, for a variety of reasons, a company begins to underperform our expectations. This is typically reflected by earnings disappointments and downward earnings revisions. When this occurs we will reevaluate the company's potential to achieve our price target. One example of this kind of sale is the recent sale of AT&T.

Market conditions are extremely turbulent right now, so we're seeing a lot of rotation within sectors and industries, this will drive some of the transactions. Second, we are navigating the quarterly earnings reporting period. As we get new reports our thinking on some of our holdings changes. Typically, our turnover is about 50-75% annually, but much of this occurs around reporting season.

We buy with the hope that we can hold a stock for three years if not more. But, as conditions change, given that commission costs are relatively small, in my experience it is to our client's advantage to have the best holdings possible even if it requires incurring some transaction costs. As the investment adviser, I get paid a fee based on the size of the portfolio. I receive no compensation from the commissions.

Our only objective is to maximize the size of your portfolio, and we attempt to give you a portfolio that I think has the strongest likelihood of outperforming the market without incurring unnecessary volatility. Unfortunately, not all of our investments are winners. In my experience, it's imperative that managers avoid stubbornly adhering to assumptions or beliefs that have been disproven. If I knew exactly which stocks would outperform, we wouldn't need to own 40-50 stocks. Ultimately, portfolio management is about trying to maximize your probabilities of success. To me, this means adapting your portfolio to ever-changing market conditions.

In July, we modestly underperformed the S&P 500 due to the underperformance of energy, basic materials & international stocks. But, since the beginning of the bear market, we're showing substantially less downside than the market. You have to look for the silver lining where you can find it in this environment.

There are three components to risk in the market--company specific, industry/sector specific and systemic (market-wide). Bear markets that result from an increase in systemic risk are the toughest to navigate. That's what we're in right now. Compared to the 2000-2003 bear which was dominated by industry and sector risk increases, there are very few life preservers in stocks. The good news is that once the systemic risk decreases, the ensuing bull market will be across the board, but who knows when that occurs. Until then, there's not much that anyone can do to avoid the carnage except get out of or short stocks. The problem with that approach is very few get back in until it's too late and the next rally has already pulled the market substantially higher.

The surest path that I know to long-term investment success is to take advantage of inevitable bear markets by purchasing very high quality companies at multi-decade low valuations. Recent purchases like Hewlett Packard, Bank of New York and TJ Maxx appear very attractively valued, yet have businesses that are effectively navigating this difficult economic environment.

Bear markets don't last forever. We'll eventually work our way out of this. But in the meantime, I'm confident that we are paying bargain prices for companies that will propel us to strong performance as the next bull market asserts itself.

Thank you for your continued business and trust. We hope to continue to reward the confidence you have in us.

Sincerely,



Patrick S. Jolliffe, CFP[®], ChFC
President & Chief Executive Officer



Eric Barden, CFA
Chief Investment Strategist

Enclosures