

Fourth Quarter 2007

*"Stock market returns sometimes get well ahead of business fundamentals (as in the late 1920s, the early 1970s, the late 1990s). But it has been only a matter of time until, as if drawn by a magnet, they soon return, although often only after falling well behind for a time (as in the mid-1940s, the late 1970s, the 2003 market lows). In our foolish focus on the short-term stock market distractions of the moment, we, too, often overlook this long history. We ignore that when the returns on stocks depart materially from the long-term norm, it is rarely because of the **economics** of investing – the earnings growth and dividend yields of our corporations. Rather, the reason that annual stock returns are so volatile is largely because of the **emotions** of investing." - John C. Bogle, Founder of Vanguard, author of *The Little Book of Common Sense Investing**

2007 was the year that we witnessed the return of volatility. You may recall from my earlier newsletters that we experienced significant ups and downs during certain quarters only to see a mild change from one end to another. At the end of the day, however, it was the fifth positive year in a row for equities as the S & P 500 increased by 5.5% for the year, lower than the 10% long term average but better than some might have anticipated as we lived through drops of over 1,000 points in the Dow. The first two weeks of 2008 brought more downturns as the market continued to work through recent turmoil and uncertainty about the future. Please see the attached newsletter for more in-depth commentary on the past year and expectations for 2008.

During the first quarter, we will be rebalancing the accounts. The allocation to international equities will increase slightly, and there will be some further rotating from small to large caps and value to growth. We will continue to evaluate additional opportunities as they present themselves. Please remember that the investment philosophy at Walden Capital stresses the importance of maintaining diversified portfolios, being in many sectors all the time with marginal shifts based on market conditions. Sector returns tend to go in cycles. Because a sector may be out of favor means we may decrease its allocation but not eliminate it all together. This approach helps smooth the returns over time and avoids the short term roller coaster returns from investing in only a few sectors or securities.

As noted above, the market can be volatile over short term periods, and the large daily swings we are witnessing are often based on sentiment, emotion and speculation. It is important to remember that you carefully chose a risk level that would allow you to reach your goals while having peace of mind along the way. You rarely earn the average return every year. Rather, your portfolio returns more or less. Over time, performance evens out but there will be ups and downs along the way. It is likely that this volatility will continue for a few quarters. I urge you to stay focused on your long term goals and use this as a buying opportunity if you have available funds.

Enclosed please find your report for the year ended December 31, 2007. By mid-February, you should receive 1099 reports from your custodians. We will be mailing out a Realized Gains and Losses report providing you with cost basis information on any sales we made during the year. We will also include a statement of all management fees paid during 2007 so you can give both of these reports to your accountant.

Best wishes for a new year filled with health, peace and joy.

A handwritten signature in black ink, appearing to read "jill". The signature is written in a cursive, lowercase style.