April 22, 2009

Enclosed is your statement for the first quarter of 2009.

For the quarter, equity investors saw total returns of -11.01% for the S&P 500, -12.48% for the Dow Jones Industrial Average and -2.79% for the technology-oriented NASDAQ. For the quarter, fixed income investors saw total returns of 0.09% for the 1-year Treasury Index, 0.42% for the 5-year Treasury Index, -2.82% for the 10-year Treasury Index, and the 10-year BB- corporate bonds had total returns of 7.05%. The 10-year fixed income returns reflect success in the U.S. government's efforts to calm credit markets, as investors began to reallocate monies from U.S. government bonds into corporate bonds. The government's efforts were also reflected in the equity markets, but did not completely restore February's dramatic decline.

These are emotionally challenging times for all of us. The combination of decreasing jobs, increasing taxes, declining portfolios and rising expenses are enough to make anyone miserable – even the steadiest long-term investors. We at Academy experience the same emotions as you do, but we have the advantage of each other's reinforcement and the hands-on study of the underlying companies. Our quarterly letters are designed to provide you insight into our investment process - giving you a seat, so to speak, on our investment committee so that you can see through this turbulence.

As always we wish to emphasize that the best investment opportunities exist in difficult periods. Today is no different. Markets move through cycles which may be accurately characterized as manic-depressive. These massive swings of price reflect the emotions of millions of investors. But throughout these swings, the underlying patterns of earnings and market presence remain relatively consistent. Price is what you see, value is what you have. The country song tells us that "all that glitters is not gold," but we also know that just because it doesn't glitter, doesn't mean it's not gold.

To paraphrase the opening words of our last two spring letters: "Our approach to these times is the same as it was in either the Binges or the Purges of past – to follow the admonition to "be fearful when others are greedy and be greedy when others are fearful." Binges are best met with "fearful" approaches, while Purges are best met with "greedy" approaches." Two years ago, we perceived the securities markets, correctly as it turns out, to be in the Binge zone. Last year, and even more so now, we believe that they have moved into the Purge zone.

The spring quarter's letter regularly addresses the businesses of the stocks which were newly purchased over the prior year. By that time, dust from the prior year's activity has settled, stories have moved from the headlines to the back page and we can reasonably discuss the prospects for these new additions. But during the Purge of 2008, we made no purchases of stock in businesses we did not already own. Why was that?

Our investing process is similar to shopping. We love a good deal. Most years, we are like the tightwad who really prefers white shirts, but gives heavy consideration to the clearance sale on last year's popular colored shirts that are now marked 75% off. He might prefer white, but markdown arithmetic forces him to try a new color. Much to his wife's dismay, he may come home with a pile of newly purchased purple shirts, exclaiming, “Honey, look at all the money I saved on these beautiful shirts!” Our best ideas have often been met with that wifely dismay.

But last year was far different than this seasonal clearance environment. Instead, the markets seemingly put up a storefront sign proclaiming, “Going out of business. All items must be sold!” During the Cash Rush of 2008, all items were put on markdown without regard for color, size or quality. Suddenly, we could shop the whole store and were not limited to a few markdown tables. We bought heavily and chose to busy ourselves with purchasing more shares of some of the best businesses we already own. As a client and friend of the firm says, “You can’t get enough of nothin’ good!”

Just because we have simply loaded up on more shares of some of our companies does not mean that we have all of the world’s best companies in your portfolio. There are still a few “white shirt” businesses that we would like to buy, but that have not yet been marked down enough. Businesses such as Procter & Gamble, Fastenal, Expeditors, Danaher and Pepsi fit our tastes, but, as yet, not our budget. If the market’s gyrations continue on a downward trend, we may be adding new names to be discussed in future letters.

As we mentioned last year, we do not mean to minimize the real emotional and financial pain associated with this Purge. Binges are much more pleasurable. While investment possibilities continue to increase, we also realize that these times are generally lengthy and difficult. This one is likely to be no different. However, just as we personally experience healthier growth through painful periods than we do through lush ones, we are optimistic that the economy will be more structurally sound, more resilient and better regulated at the other end of this wrenching period.

We hope this letter helps you understand our process. We want you to stay informed and feel comfortable about our investing discipline. If you’re new to Academy, past quarterly letters may be useful and may be obtained through your financial advisor or Sue Compton at our office. In addition, our website (at www.academycapitalmgmt.com) has our investment reports on the individual holdings in your portfolio.

As always, we appreciate the stewardship responsibilities you entrust to us and your patience with our investment process.

Academy Capital Management