January 17, 2007

Enclosed is your statement for the fourth quarter of 2006.

For the quarter, equity investors saw total returns of 6.70% for the S&P 500, 7.39% for the Dow Jones Industrial Average and 7.15% for the technology-oriented NASDAQ. For the quarter, fixed income investors saw total returns of 1.08% for the 1-year Treasury Index, 0.55% for the 5-year Treasury Index, and 0.46% for the 10-year Treasury Index. Reflecting renewed investor appetite for risk, the 10-year BB- corporate bonds had total returns of 3.65%. Both the equity and fixed income returns reflect increased investor comfort because the price of oil and gas is declining, the Fed's rates are not increasing and the housing market is not imploding. As in the previous quarter, our stocks generally rose higher than market averages.

Seasons change and the current happy environment for stocks inevitably will as well. Valuation ratios are not extraordinarily high, but corporate profitability is. This profitability could easily decrease as the costs (implicit and explicit) of regulatory changes increase. Egregious corporate behaviors are driving these changes. Cicero said, "bad cases make bad law" and as blunt remedies are applied, profits may suffer. On the other hand, patterns in globalization and increased standards of living for many of the world's poor are encouraging for corporate growth rates, so the broad outlook for corporate profits remains, as always, uncertain. We continue to adhere to Samuel Goldwyn's insight: "Forecasts are difficult to make, especially about the future."

At the end of the year, we review which investments have produced the best results and why. In 2006, our lead gainer in total dollars for clients was Comcast stock. It may be helpful for you to understand how and why we made this investment. We typically avoid an investment which is highly dependent on technology. Comcast, as an almost pure play cable company, has seen rapid changes in technology over the past decades forcing major expenses to refit their "pipes." This "capital pig" behavior is exactly why we avoid these companies. Yet, we rethought our view of Comcast. You might ask why.

In our constant search for good investment ideas, we run computer screens, scour periodicals and look at the competitors of companies we study. We also study the decisions of investors we respect. As it is written, "let your place be a gathering spot for the wise and get dirty from sitting at their feet." One of our "wise" is Glenn Greenberg. When he committed over 30% of his clients' money to Comcast stock (after a multi-year decline which he and his clients endured), we decided it was worth further study. As a result, we determined that Comcast did fit our definition of a quasi-monopoly and that it had reached a point where the "capital pig" pressure was declining. The result was a 67% return in 2006 with, we believe, more to come.

Such rapid turnarounds are more fortuitous than expected (but welcome, nevertheless). As we said last quarter, a Rip Van Winkle outlook on investing is important. We evaluate a stock's value by discounting cash flows anticipated over the next ten years, seeking purchase at significant discount to that value. In order for this strategy to fully payoff, investors should think in terms of years or even decades. This is difficult when the media trumpets results measured in minutes, days and quarters. By spotlighting the results of our investment in Comcast, we are not signaling a change to a short-term point of view. We are only trying to give you more insight into the varied ways that we discover and pursue investment ideas.

We hope this letter helps you understand our process. We want you to stay informed and feel comfortable about our investing discipline. In communicating, we try to "do unto others as we would want done unto us." 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