

January 14, 2009

Enclosed is your statement for the fourth quarter of 2008.

For the quarter, equity investors saw total returns of -21.94% for the S&P 500, -18.38% for the Dow Jones Industrial Average and -24.37% for the technology-oriented NASDAQ. For the quarter, fixed income investors saw total returns of 1.55% for the 1-year Treasury Index, 8.62% for the 5-year Treasury Index, and 15.11% for the 10-year Treasury Index and the 10-year BB- corporate bonds had total returns of -10.20%. During the quarter, prices of “risk” assets, such as stocks and corporate bonds dropped precipitously, as investors panicked at the government’s unwillingness to bail out Lehman Brothers. At the same time, “risk-free” assets, such as U.S. Government bonds soared in value.

We have a fourth quarter letter tradition of discussing the investments which have generated the best results for the year. Reviewing investment gains is not only enjoyable, but we also believe that it can help you better understand our process.

In 2008, our lead gainer both in percentage gain (over 50%) and total dollar gain was the stock of Anheuser-Busch (BUD). BUD was purchased by InBev, a Belgian-based company. The brand stocks, particularly in the food and beverage category, have long been a staple of our approach because their business “moat,” or protection against competitive pressure, is significant. In fact, we were so excited about our purchase of BUD in 2004 that we dedicated a large section of our letter to BUD’s investment characteristics. Here is some of what we said in the first quarter 2004 letter:

“One of the most important competitive characteristics of a business is a brand. Your managers at Academy have spent too much time on farms to be attracted by commodity businesses. Commodities have a few happy years that never compensate for the full cycle of underperformance. BUD is a farmer's dream, taking hops and grains and turning them into a brand valuable beyond imagination. By combining an increasingly dominant position in its industry with smart management, BUD has created extraordinarily high investment returns. Fundamentally, this is not a business overly concerned with the cost of labor relative to global costs; nor is it concerned with changes in technology and the “deepening of capital.” This is not a business fixated on the movements in the dollar. This is not a business subject to the wild credit bubble. It is, for us, an ideal type of investment.”

It is humbling to see that not only were we four years early in identifying the “wild credit bubble,” we were also early in anticipating gains. We saw the price of BUD’s stock stay completely flat for the next four years, although we did receive dividends. This telling five year saga of BUD illustrates an important point that we have repeatedly made – we are long term investors. Short term results can be misleading.

We have said repeatedly that a Rip Van Winkle outlook on investing is important. We evaluate a stock’s value by discounting free cash flows anticipated over the next ten years, seeking purchase at significant discount to that value. In order for this strategy to pay off fully, 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 BUD, we are not signaling a change to a short-term point of view. We are only trying to give you more insight into our process.

We hope this letter deepens your understanding. 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