April 17, 2007

Enclosed is your statement for the first quarter of 2007.

For the quarter, equity investors saw total returns of 0.64% for the S&P 500, -0.33% for the Dow Jones Industrial Average and 0.44% for the technology-oriented NASDAQ. For the quarter, fixed income investors saw total returns of 1.28% for the 1-year Treasury Index, 1.76% for the 5-year Treasury Index, and 1.44% for the 10-year Treasury Index and the 10-year BB- corporate bonds had total returns of 1.52%. Both the equity and fixed income returns reflect a continued battle between the thrills of private equity buy-outs and the concerns over the housing market. Because of our concentration in the financial sector, our stocks generally underperformed market averages during the past quarter.

We remain skeptical that the current private equity buy-out craze will end any better than those other leveraged buy-out eras in the past. The latest issue of a financial publication headlines "The Buyout Binge: How Long Can It Last?" We can answer that from our experience with the Great Tech Binge; long enough for us at Academy to have moved through the emotional sequence of shock, laughter, disbelief, bewilderment and finally, despair. As we read the list of companies which are being taken private and the prices which have been paid, we are probably somewhere between disbelief and bewilderment. So, more headline-grabbing news about private equity buy-outs seems likely.

Our approach to these times is the same as it was in either the Binges of past or the Disasters 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 Disasters are best met with "greedy" approaches.

Today's "fearful" approach is to find where we have the highest margin of safety. In past letters, we have commented on the unusually high quality of companies that we are purchasing. As the private equity buyout binge combines with investors' current faddish focus on small capitalization and value style investments, we have moved to the market's great love of the 90s: large capitalization growth stocks.

Two recent purchases exemplify this movement: Progressive and Amgen. Both of these companies are industry leaders with powerful business franchises. Several years ago, in the course of acknowledging "sins of omission," we discussed Progressive. Although we had purchased the auto insurance companies of Allstate, Mercury General and GEICO (through Berkshire Hathaway), we did not purchase Progressive. Owning our error, we vowed that we would not miss Progressive given another opportunity. Six years later, we are getting that opportunity.

Amgen is a leader in the biotechnology field. We have long advocated the pharmaceutical companies as superior investments and studied the biotech companies which were gaining market share in the drug arena. Without getting too complex in this letter, what we learned about the superior patent protection afforded the biotechnology companies caused us to long for an opportunity (meaning a major drop in price) to purchase. We finally were rewarded with that in March, after following Amgen closely for nearly five years.

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