Van Sant & Mewshaw Inc.

Registered Investment Advisor

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MARKET MANTRA

Analysis/Commentary

Where are the customer's yachts!? At least that's what the shareholders of the much venerated Legg Mason Value Trust must be asking. In past years the Value Trust and its acclaimed captain, Bill Miller, had received much adulatory attention from the financial media when the Fund was consistently beating the S&P 500 Index. As reported in *Barron's (8/14/06)*, Mr. Miller himself purchased a yacht; *"This summer, Miller bought a huge*

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Returns 2007

INDEX	4TH QTR	YTD
S&P 500	-4.10%	+3.35%
Dow Jones Industrial	-5.10%	+6.40%
Nasdaq	-2.00%	+9.80%
Russell 2000	-5.00%	-2.70%
Foreign Stocks	-2.30%	+8.60%
Enhanced Growth	-3.73%	+5.78%
Growth	-2.03%	+5.78%
Moderate Growth	+-1.03%	+5.88%
Conservative Growth	+0.24%	+5.60%
1YR T Bill		+5.20%

NEWS AND UPDATES

Year-Ahead Planning

The markets have been extremely volatile during 2007 and by all indications will continue to be so in 2008. It is one thing to calmly construct an investment plan using graphs, tables and spreadsheets. It is most emphatically another to implement the plan and stay the course. It is imperative to not allow yourself to become distracted by the incessant flow of useless information generated by the financial media and the Wall Street marketing machine. We have resounding confidence that our investment methods and strategy, when adhered too, will be successful meeting our client's needs and objectives. Now is the time to review your portfolio and re-focus on your investment objective and strategy. One of the most common reasons for a portfolio to fail to meet its stated goal is miscommunication between the client and Investment Counsellor. **If you have not done so recently please call to schedule a portfolio review.**

Capital Gains and Loss Statement for 2007

IMPORTANT!!

The Capital Gains and Losses Statement is not included with the quarterly/annual *VSM* statements, it is sent out by request only. Please telephone *VSM* if you wish to receive this statement.

Required by the SEC

Rule 204-3(a) of the Investment Advisor Act requires all Investment Advisors to offer, annually, a copy of their Form ADV, Part II to all of their clients. Please consider this as our offer to deliver our most recent Form ADV, Part II. To request a copy call 410-825-8844 or visit the *VSM* website at vs-m.com.

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yacht in Europe to vacation on and put out for charter. According to the rumor mill, the boat is nearly 280 feet long, close to the length of a football field." If you adhere to the philosophy of Modern Portfolio Theory, as we do, you would know it would only be a matter of time before Mr. Miller's luck would run out. And it has. Indeed, as of the close of this year the Legg Mason Value Trust has underperformed the S&P 500 Index by 10.16%, three years underperformed by an annualized 6.72%, and five year underperformance of an annualized 1.39% (Data provided by Morningstar). Moreover, depending on where you were invested during a very selective 2007 you either had a great year, an average year, a bad year or a really bad year. If you happened to be invested in the Brazilian Bovespa Index you would have enjoyed a 75% return on your money. Had you stayed local and kept your funds in the U.S. market utilizing the S&P 500 Index as your investment vehicle, you would have captured a 3.5% return. Had you been invested in Mr. Miller's fund, the Legg Mason Value Trust, you would have been down 6.66%. Had you been advised by your local broker…*as the Indiana Children's Wish Fund was*… to invest your assets in an alternative bond fund which invested in pools of mortgages combined into collateralized debt obligations and been assured of high returns with virtually no risk…*as they were* …50% of your assets would have been vaporized… *resulting in nine terminally ill children's wishes going unfulfilled*. We could never make this stuff up. *(The Debt Crisis, Where It's Least Expected, Gretchen Morgenson, NYT 12/30/07).*

We cite the previous examples to illustrate and reinforce some of the most important tenants of modern portfolio management:

*All securities markets, whether it's the Brazilian Bovespa Index or the S&P 500 Index are subject to the same economic rules. In the short-term, all markets provide **speculative return** based on investor sentiment and momentum. In the long-term the markets provide **investment return** based on earnings yield and averaged earnings growth. To confuse the two can prove to be a very expensive lesson.

*Risk and reward are inextricably intertwined, if you desire high returns you will have to be in a riskier asset mix. An 80% equity 20% bond portfolio-mix will provide higher rates of return over the long-term than a 60/40% mix.

*No one is capable of beating the market on a consistent basis. Decide what market you want to be in and then buy a commensurate index fund.

*The most effective way to manage a portfolio is to allocate your assets between several different asset classes and rebalance the portfolio on a scheduled basis. Rebalancing takes the emotion out of investment decisions, simply stated it forces you to buy low and sell high.

In order to demonstrate the efficacy of this method we provide the following example by starting with a withdrawal portfolio. This is one of the most difficult portfolios to manage. It is a portfolio in which no new funds are being added and there is an annual withdrawal of funds. In the table below we illustrate the results of a $500,000 portfolio with 40% invested in short-term bonds and 60% allocated equally among eight diverse asset classes. There is an annual withdrawal of $25,000 and a 1% annual management fee. Most importantly the portfolio is rebalanced on an annual basis. We began the portfolio at the worst time possible, the start of the three year bear market, March 2000 through 2002, when the S&P 500 lost 40% of its value.

Year	Beginning Balance	Annual Withdrawal	Ending Balance	Net Return
2000	$500,000.00	$20,833.33	$468,235.00	-2.1%
2001	$468,235.00	$25,000.00	$422,458.00	-4.4%
2002	$422,458.00	$25,000.00	$342,133.00	-13.2%
2003	$342,133.00	$25,000.00	$427,103.00	33.7%
2004	$427,103.00	$25,000.00	$470,303.00	16.5%
2005	$470,303.00	$25,000.00	$497,170.00	11.3%
2006	$497,170.00	$25,000.00	$561,956.00	18.4%
2007	$561,956.00	$25,000.00	$595,012.00	10.2%
Total	**Withdrawals**	**$195,833.33**		

Based on the period ending November 2007. Data provided by Morningstar. Complete data available upon request.

Notable Quotes

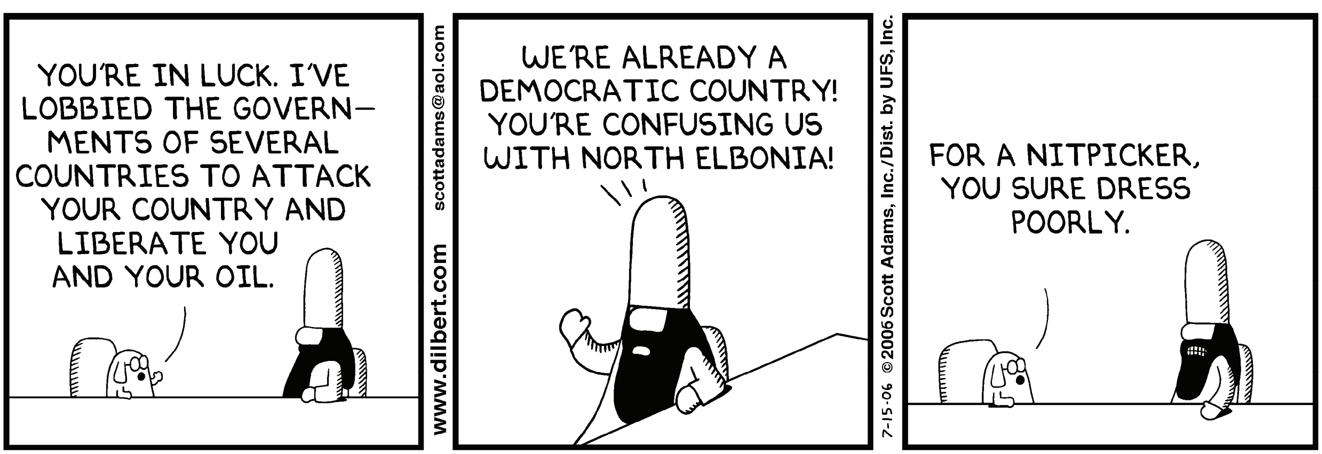
"Gisele Bundchen wants to remain the world's richest model and is insisting that she be paid in almost any currency but the U.S. Dollar. Like billionaire investors Warren Buffett and Bill Gross, the Brazilian supermodel, who Forbes magazine says earns more than anyone in her industry, is at the top of a growing list of rich people who have concluded that the currency can only depreciate because Americans led by President George W. Bush are living beyond their means." *(Supermodel Bundchen Joins Hedge Funds Dumping Dollars, Bo Nielsen, Bloomberg.com, 11/5/07)*

"Jim, you're worried about the Fed and you're worried about inflation, and you think they are potentially printing too much money. But if that's the case and if they're really determined to re-inflate and revive the economy, does, that support the dollar?--- Kathleen, printing money has never been good for inflation. That causes inflation, one of the causes of inflation. The dollar is not going to go up if they print money. If they keep printing money, do you want to own more dollars? Well, you don't, and neither do people outside the country. They're going to say why would we buy the dollar? Why would we support the dollar if they're printing money down there as fast as they can? Of course it's going to hurt the dollar. It's going to make commodities go higher, it's going to make inflation go higher, it's going to make interest rates go higher." *(Jim Rogers interview with Kathleen Hayes, Bloomberg.com, 11/6/07)*

"Last week, the dollar dropped to yet another record low, reaching the verge of $1.50 to the Euro. On a trade-weighted basis, the currency has, in four years, lost a third of its value. That's done the US some favors, helping its exports stay competitive. But the dollar's long dive means countries worldwide, having used the currency to store their reserves, are sitting on massive losses. That's why the dollar's demise is of major diplomatic and even military significance." *(Bet Your Bottom Dollar Tensions Will Follow, Liam Halligan, The Daily Telegraph UK, 11/24/07)*

"It's one thing to be rejected by Warren Buffett, who's been predicting the dollar's demotion for years. But it's an ominous sign when dollar weakness becomes ingrained enough in the popular mind for the currency to be spurned by runway models. At least Gisele hasn't yet declared that she prefers the Canadian loonie, which would really be humiliating. That's like being dumped by your date for the PC geek in those Apple Macintosh ads. This is what happens when the Fed and U.S. Treasury give the impression that the dollar's decline is no big deal, and that a little devaluation might even be useful. Nations start to de-peg from the dollar standard, and people around the world start to dump the greenback. We hope the Fed shapes up before Tom Brady, the New England Patriot quarterback and Gisele's boyfriend, starts demanding that he be paid in euros just to keep up." *(Gisele Dumps Ben, Review and Outlook, Wall Street Journal, 11/6/2770)*

DILBERT BY SCOTT ADAMS



Passive Portfolio Allocations
December 31, 2007

FUND	ENHANCED GROWTH	GROWTH	MODERATE GROWTH	CONSERVATIVE GROWTH	RETURN 2007
U.S. Stocks Large Cap	65.00%	50.00%	40.00%	30.00%	+5.39%
U.S. Stocks Small Cap	15.00%	10.00%	8.00%	5.00%	+1.16%
Foreign Stocks	20.00%	15.00%	12.00%	5.00%	+15.52%
U.S. Bonds	0.00%	25.00%	40.00%	60.00%	+6.92%
	—	—			
Return Thru 12/31/07	+5.78%	+5.87%	+5.88%	+5.60%	—

THE PURPOSE OF PASSIVE ALLOCATION

Passive Allocation reflects a logical, static, strategic asset allocation for a hypothetical long-term investor who is not using active asset allocation. It is based on our evaluation of the historical long-term risk and return relationships of the asset classes, and what we consider to be realistic and reasonable expectations going forward. It is the starting point for our active asset allocation process.

The passive allocation is the asset allocation that we will implement when our conviction level about any specific asset class is not high enough to justify changing the asset allocation mix. It gives us a sensible long-term allocation, based on sound research. It gives us a constant frame-of-reference against which to measure decisions. For example, if our research shows small cap growth stocks are at historically undervalued levels, we must decide what they will replace in the portfolio and how far from passive we will stray. This will be a function of our confidence and the impact on the portfolio's risk and return potential. The permanent frame-of-reference imposed by the passive allocation increases the odds that we will consistently apply our methodology. The passive allocation will serve as a benchmark against which to measure our value added.

Passive Portfolio Allocation Historical Risk/Return

PORTFOLIO TYPE	RISK LEVEL 12 MONTH LOSS THRESHOLD	TEN-YEAR AVERAGE RETURN	WORST 12 MONTH ROLLING RETURN 1976 THROUGH 2006
Enhanced Growth	-20%	8.17%	-26.71%
Growth	-15%	8.01%	-17.31%
Moderate Growth	-10%	8.14%	-11.64%
Conservative Growth	-5%	7.40%	-5.32%

Passive portfolio results reflect only hypothetical returns and may differ significantly from results achieved for actual managed accounts. Passive portfolio results reflect reinvestment of dividends,other earnings and the deduction of fund expenses and management fees. Complete descriptions of accounts and transaction history is available upon request. Van Sant and Mewshaw, Inc makes a good faith effort to highlight and summarize certain economic, market, and other data to assist their clients in structuring investment portfolios.This report should not be construed as advice meeting the particular needs of any investor. Investors are advised that past performance is no guarantee of future results. Historical data provided by Morningstar; beginning in September 1976 through February 2007