INVESTMENT OUTLOOK

September 30, 2006

Like most professional investors, we have enjoyed the upward trajectory of equity prices in recent months. Moreover, it is particularly satisfying to see increased investor interest in our favored type of quality growth companies, since they have been overshadowed by international and small-cap equities, as well as commodities and real estate for the last few years. Several of our longer-term investments are showing strong gains, while we are also seeing solid appreciation in some of our more recent acquisitions.

This apparent shift in investor interest has reminded us of the widening disparity in investment strategies in recent years, and it seems a good time to describe again how we approach stock selection. Our style is a combination of growth and value. We analyze scores of individual companies one stock at a time, seeking businesses with superior long-term (3-5 years) growth prospects. But we will only invest when the company appears distinctly undervalued as measured by a range of criteria that we have found helpful. Once we have committed to a company, we plan to own its stock so long as the growth we forecast is realized, and we will wait for a full valuation before selling. This provides us the opportunity for significant gains, as a company's earnings growth compounds, its excess cash is returned in dividends, and its equity is revalued, as the market appreciates its expansion potential. A final important factor in our investment work is patience. After determining a company's growth prospects, we must wait for a proper price to demonstrate that the security is indeed undervalued before we take a position. Then, once we own the stock, we are again willing to wait for sometime until a combination of growth and revaluation produces meaningful long-term appreciation. Of course, we always monitor each investment closely to be sure that the anticipated growth is indeed occurring. Even the best companies can change, so we will consider selling a stock if, or preferably before, its fundamentals begin to erode.

It seems particularly appropriate to reiterate Saybrook's investment strategy at a time when alternative approaches – such as those that emphasize rapid turnover and little interest in long-term business fundamentals – have attracted many practitioners. A prominent example of

this appeared in a first-page feature article in a recent Wall Street Journal. It described a major mutual fund manager nervously trying to keep up with the zigs and zags of the market by shifting his fund's industry exposure on an almost weekly basis. If commodities were hot, he would own oil companies; if the economy appeared to be slowing, he would rapidly shift a big portion of his portfolio to such defensive consumer stocks as foods and health care. His *modus operandi* seemed to be to grab different industries and market sectors in an effort to catch quick swings in stock prices. He appeared to pay little or no attention to the quality or outlook of the individual companies in which he invested.

Another alternative to our long-term focused investment style is the current tactic of searching for a *catalyst.* The dictionary definition of a *catalyst* is "an agent that speeds significant change". Research reports from analysts frequently speak of *catalysts* to try to persuade money managers to buy their stock ideas for a quick move. This *catalytic* concept has developed a wide following, as hedge funds have become responsible for a disproportionate part of stock market activity.

We have always believed that there can be a variety of successful strategies for achieving good long-term returns from equity investments. However, we are also convinced that to be successful a manager's investment strategy must be coherent and consistent. We cannot say that rapid shifting among industries and market sectors or quick trading from one hot idea to another, as described above, cannot make money. However, our long-term investment approach, with its emphasis on individual, undervalued-growth stock selection does have these important advantages:

- Lower turnover and commission expenses
- For taxable accounts, greater tax-efficiency, with gains not taxable until sale (and then at the far smaller 15% long-term capital gain tax).

and most important..........

- An opportunity for great investments to grow to their full potential with gains up to 4-5 times original cost. This is partly because the investment compounds over a longer period. But the real reason is because upward stock moves are often unpredictable, so

investing over a long time frame enables positive fundamentals to reap their deserved reward.

What are the results of our investment approach with its emphasis on purchasing undervalued, quality growth companies and holding them for significant long-term gains? We can provide specific results for individual accounts for appropriate periods. However, since the Dow Jones Industrial Average on October 3rd finally surpassed its prior peak, after a 6 ½ year period of sharp decline and slow recovery, we thought it would be interesting to note how a composite of our accounts performed in the same period. The chart below compares the total return (appreciation and dividends) of our composite with that of the Dow Jones and the S&P 500.

Investment Performance
Between Peaks in Dow Jones Industrial Average
12/31/99 – 10/3/06
(Total return – after fees)

Saybrook Total	+40.73%
Saybrook Equities	+44.60%
DJIA	+16.98%
S&P 500	+1.09%

Excluding dividends, on October 3rd the Dow Jones was flat and the S&P remained 15% behind its early 2000 peak. Furthermore, our results were after annual management fees. We feel good about the growth that we have achieved for our clients and even better about the fact that we experienced only very modest declines during the worst of the 2000-2002 bear market. We hope that you are happy with our long-term results. The last few years have seen only modest gains for the market and our portfolios, but there is a sense that returns have begun to accelerate. We hope so.