

# BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

## *Institutional-level Money Management for Individuals*

April 1, 2008

### Highlights

- Assets under management exceed \$28 million from new clients and asset appreciation.
- Our Dow Jones/Select strategy outperformed the DJIA by 142 basis points and the Russell 1000® Growth Index by 405 basis points for the first quarter 2008.
- Volatility for our portfolios remains significantly less than their benchmark indices. This dramatically improves the impact of compounding on long-term returns.

**Our Mission:** To provide a better way to invest in large-cap stocks.

**Our Objective:** To achieve significant alpha with low volatility over a 3-5 year horizon.

**Our Products:** Separately Managed Accounts of individually selected large-cap growth stocks.

### First Quarter 2008 Newsletter

2008 began on a sour note as the Dow Jones Industrial Average declined -7.55%, the Russell 1000® Growth declined by -10.18%, and the S&P 500-Stock Index dropped -9.44%. Our composite portfolios did a tad better than the benchmarks as the Dow Jones/Select declined -6.13%, beating the DJIA by 142 basis points and the Russell 1000® Growth by 405 basis points. The S&P 500/Select dropped -9.08%, only slightly better than the S&P 500 and Russell 1000® Growth.

Over the past 12 months US equities have returned on average -6.1%, and 78% of all diversified large stock funds under performed this average. In contrast, our DowJones/Select has improved by +7.5% and our S&P500/Select has gained +0.9% over the same period. Those investors who use index funds may wish to reconsider the risk they are assuming.

The major question going forward remains whether the first quarter of 2008 marks the beginning of a larger decline, or the end of a correction in an ongoing up trend. Our focus on internal growth potential indicates that, so far, this is just a correction, but we will gain more evidence when quarterly financial data is released toward the end of April and continuing through May. There will always be uncertainty which is why we depend on our discipline, but it is in times like these that sticking strictly to an index fund may not be the most productive for your portfolio's health.

Best Regards,

*BEACON STREET CAPITAL, LLC*

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<sup>1</sup>All results are un-audited and net of fees. Composite returns began January 2002 for the S&P500/Select and April 2002 for the DowJones/Select, are asset weighted and net of fees. Returns prior to November 2001 and March 2002 are total returns for model portfolios managed by Beacon Street Research, Inc., an affiliated company, on a real-time basis using the same methodology and manager, with stocks selected from those comprising the Standard & Poor's 500-Stock Index and Dow Jones Industrial Average. **Past performance is no indication or guarantee of future performance.**

This document and the information contained herein are not and should not be construed as an offer to sell securities. This document is for information purposes only and does not represent an offer or solicitation to purchase securities of any kind. While Beacon Street Capital, LLC has taken reasonable efforts to ensure the correctness of the information contained herein, Beacon Street Capital, LLC makes no representations or warranties as to the accuracy or completeness of such information. **Nothing contained herein is, or should be relied on as, a promise, representation or prediction as to future performance.** Beacon Street Capital, LLC, its employees, officers or affiliates may, in some instances, have long or short positions or holdings in the securities or other related investments of companies mentioned herein.

# First Quarter 2008 Newsletter

## Market Insights

The first quarter of 2008 was dismal for the stock market, as evidenced by the worst quarterly performance for the Dow Jones Industrial Average in 5 ½ years. Additionally, the Standard & Poor’s 500-Stock Average declined in each of the three months of the first quarter, extending its losing streak to five months. This marks the longest continuous monthly losing streak for the S&P 500 since the second and third quarters of 1990. With this decline came high volatility not seen since the early 1960’s when the average daily trading range (high-to-low) for the S&P500 was 1.4%. In the first quarter of 2008 the average range was greater than 2%. What does all of this mean? It means hedge funds are more active in making short-term bets on both the upside and the downside, and the average investor is left to ponder whether this is a correction in an on-going up trend, or the beginning of a deeper downtrend.

With the credit markets still causing massive write-downs in the financial sector and the housing and mortgage markets unable to find a bottom, there is plenty of anecdotal evidence that the downtrend will continue for stocks. Also, the Federal Funds rate was lowered three more times in the quarter to 2.25% and the consensus now seems to be that the Fed Funds rate is close to the bottom for this cycle. On the other hand, we have so far not seen a major deterioration in “growth potential” for a majority of the stocks in our portfolios. This indicates to us that while the past six months was a much needed correction in an ongoing uptrend that began in the summer of 2003, the jury remains out on whether we will experience a full scale bear market and whether we are currently in the recession that everyone has been expecting or whether it is still on the horizon. It is instructive to remember the financial markets tend to begin their recovery phase before the economy turns up and we see no reason to not expect the same will be true this time around. However, we could be whistling past the grave yard with oil prices well above \$100 per barrel, gasoline prices nearing \$4 per gallon, and commodity price increases impacting on food prices. Should these factors continue we would expect to see some deterioration in growth potential in the upcoming second quarter financial reporting cycle. If so we could be selling more stocks and raising more cash over the next 90 days.

### Exhibit 1: DowJones/Select

#### Top Ten Holdings

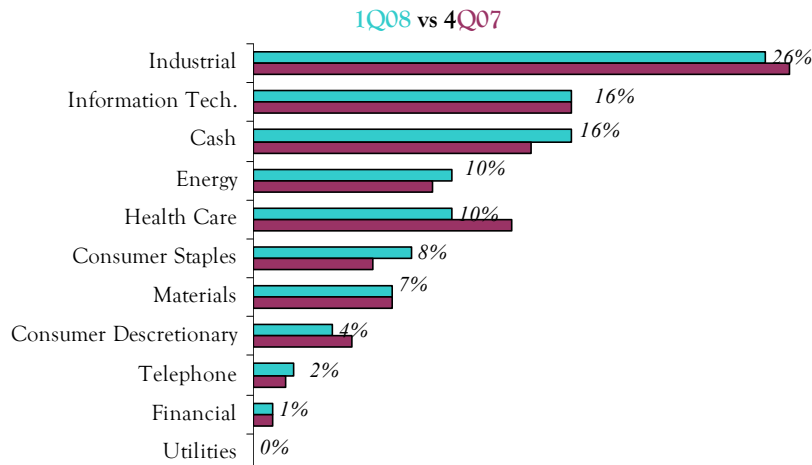
Caterpillar Inc.	9.7%
McDonalds	9.5%
IBM	8.9%
Procter & Gamble	8.6%
AT & T	7.9%
Coca Cola	7.8%
Microsoft	7.6%
Johnson & Johnson	7.5%
Intel	7.1%
Boeing	7.0%

### Exhibit 2: S&P500/Select

#### Top Ten Holdings

Monsanto	3.2%
Apple Inc	2.4%
Gilead Sciences	2.4%
C S X Corp.	2.4%
National Oilwell Varco	2.3%
McDonalds	2.1%
Praxair, Inc.	2.1%
Caterpillar, Inc.	2.0%
Honeywell	1.9%
Raytheon	1.9%

### Exhibit 3: S&P500/Select Sector Weighting



Regardless, the fiscal stimulus hoped for from the tax rebates that will be distributed in the next few months will probably not materialize. The rebates are simply a redistribution of current tax receipts that will increase the deficit in the short-term and will have to be “paid for” with additional tax receipts or additional borrowing in the longer-term. Rather than make difficult decisions, our elected officials in Washington use measures like this to attempt to convince us that they understand the economic pain and wish to do something, however fruitless, to show their constituents they are working to alleviate that pain.

The large capitalization companies that we hold in our portfolios have done a good job since the last economic downturn keeping their financial houses in order and have not bloated their operating structures with overzealous hiring practices and overly bullish capital spending. They also are extracting a significant percentage of their revenues from overseas markets, are seeing their operating results buffered by the weakness of the dollar and strong demand for U.S. exports, and have been surprising to the upside with their operating performance. We hope this continues, but we will follow our methodology and let others read the tea leaves and fret about the unknown and the unknowable.

*Herron P. Weems  
Managing Director*

## **Performance Summary**

**DowJones/Select:** There were two changes made to the portfolio in the quarter. We sold Honeywell International (HON) as it was removed from the DJIA in mid February, and replaced it with Coca Cola (KO) as it had become positive in our growth potential screens. HON was a good holding for us and we hated to see it go. It was the best performing stock in the DJIA in 2007 and from the time we purchased it until it was sold we experienced a gain of over 40%, not including steady dividends in each of the quarters we owned it. KO increased its value from the date of purchase through the end of the quarter.

Of the five positively performing stocks in the DJIA this quarter we owned the top three: Wal-Mart Stores (WMT, +10.8%), Caterpillar (CAT, +7.9%) and IBM (+6.5%). WMT had been a drag on the portfolio for quite some time but is now benefiting from the consumer seeking better price points for their basic needs and in a larger way for groceries. On the flip-side our largest decliners were in the industrial, information technologies and financial sectors with United Technologies (UTX, -10.1%), Boeing (BA, -15%), Microsoft (MSFT, -20.3%), Intel (INTC, -20.6%) and American International Group (AIG, -25.8%) leading the down trend. The rest of our holdings were somewhere in the middle of the performance pack. In all we still beat our peer indexes, exceeding the DJIA by 150 basis points and the Russell 1000® Growth Index by 410 basis points. We currently hold 14 stocks in our DowJones/Select composite portfolio under this strategy with cash representing 12%.

Starting this quarter we will show only our actual composite returns against the benchmarks, rather than including model portfolio returns, in order to focus on the more recent past. Exhibits 4, 5 & 6 show that our strategy can out perform not only its direct index, but a widely followed growth index as well, and without the volatility of either.

Exhibit 4: Net Returns vs Benchmarks				
	1Q08	1Year	3Yr. Avg	Inception
DowJones/Select	-6.13%	7.50%	6.75%	4.77%
Dow Jones Ind. Avg.	-7.55%	-0.74%	5.30%	2.78%
Russell 1000® Growth Index	-10.18%	-0.75%	6.33%	2.76%

Exhibit 5: Value of \$100 Invested April 2002 – March 2008

Beacon Street Capital - Dow Jones/Select

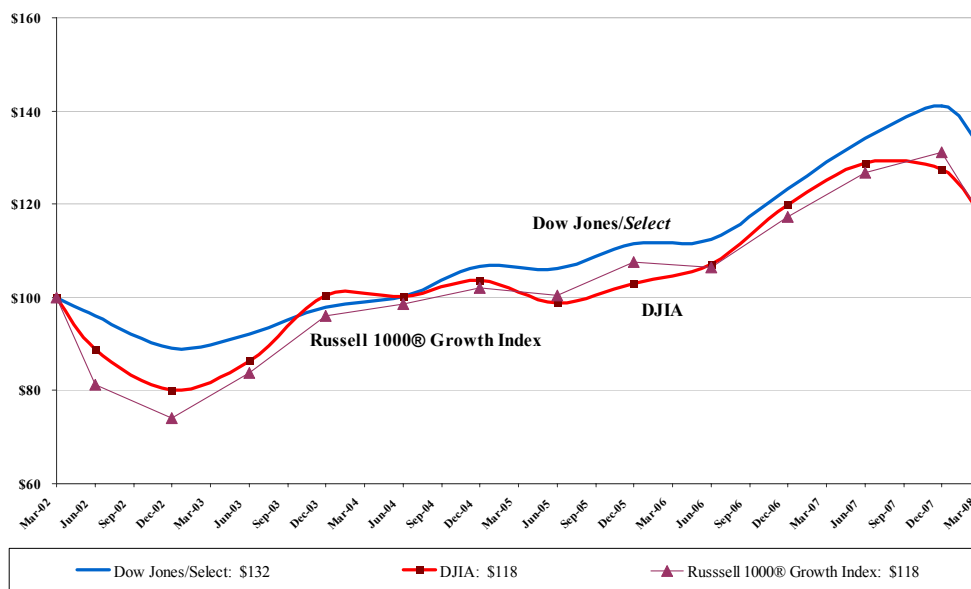


Exhibit 6: Statistics (April 2002 – March 2008)				
DowJones/Select vs Russell® Growth				
Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
2.97%	7.93 vs 12.85	9.83	0.41	0.19

Source: Informa Investment Solutions

**S&P 500/Select:** During the first quarter we purchased five new stocks and sold six for this strategy, leaving a total of 55 stocks in the composite portfolio. This gave us new positions in industrials (Goodrich Corp, GR and Deere & Co, DE), energy (Halliburton Co, HAL), consumer staples (Coca Cola Co, KO) and information technology (NVIDIA Corp, NVDA). Despite the down quarter, two of the new stocks increased in value (KO, +3% and HAL, +17%) while three declined (NVDA, -9%; DE, -7% and GR, -2%). The percentage gain or loss listed for each new stock is from the date of purchase through the end of the quarter.

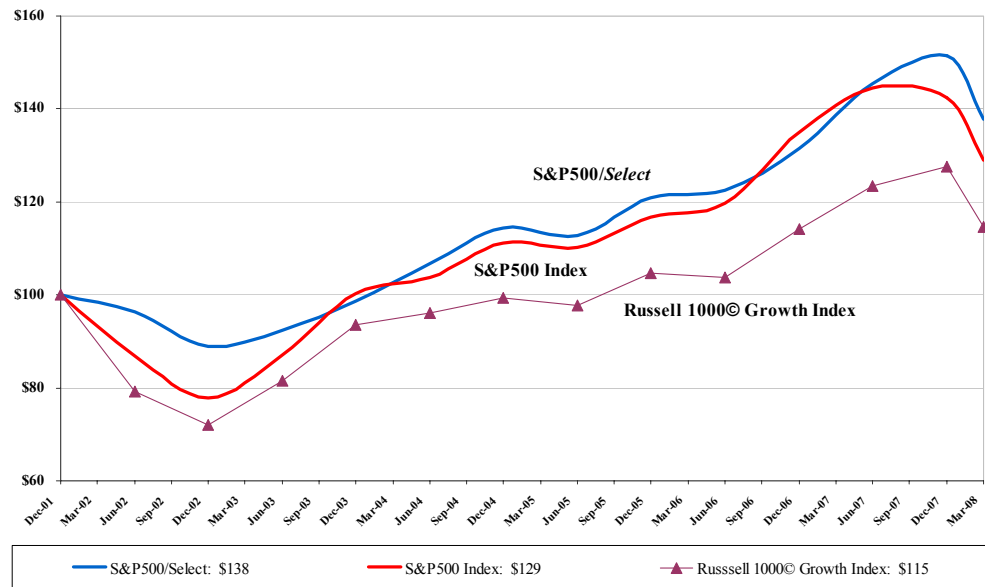
Stocks that were sold during the quarter came mostly from the industrial sector (Burlington Northern Santa Fe Corp, BNI; Norfolk Southern Corp, NSC; United Parcel Service Inc, UPS; and Lockheed Martin Corp, LMT) as we made a conscious decision to keep that sector below 30% of the total portfolio value. The remainder came from Consumer Discretionary (Lowe’s Cos, LOW) and HealthCare (Laboratory Corp. of America, LH).

The first quarter and longer-term composite performance for this Large Cap Growth product can be seen in Exhibits 7, 8 and 9.

<b>Exhibit 7: Net Returns vs Benchmark</b>				
	<b>1Q08</b>	<b>1 Year</b>	<b>3Yr.Avg.</b>	<b>Inception</b>
<b>S&amp;P500/Select</b>	-9.08%	0.88%	6.35%	5.13%
<b>S&amp;P 500 Index</b>	-9.44%	-5.08%	5.85%	4.16%
<b>Russell 1000® Growth Index</b>	-10.18%	-0.75%	6.33%	2.22%

**Exhibit 8: Value of \$100 Invested January 2002 – March 2008**

**Beacon Street Capital - S&P500/Select**



<b>Exhibit 9: Statistics (April 2002 – March 2008)</b>					
<b>S&amp;P500/Select vs Russell 1000® Growth</b>					
<b>Alpha</b>	<b>Standard Deviation</b>	<b>Tracking Error</b>	<b>Sharpe Ratio</b>	<b>Information Ratio</b>	
2.93%	9.21 vs 12.82	8.39	0.35	0.24	

Source: Informa Investment Solutions

**Introducing our new Institutional Product: Institutional LCG**

Institutional investors seek to gain alpha with a high benchmark correlation. They require managers to be fully invested and the increased volatility will be offset by other investment products. Therefore we have designed an institutional product around our S&P500/Select, by substituting the default to cash with a default to an Exchange Traded Fund (ETF). In this case we use the State Street Global Advisors SPDR S&P 500 (SPY) to stay fully invested in the market.

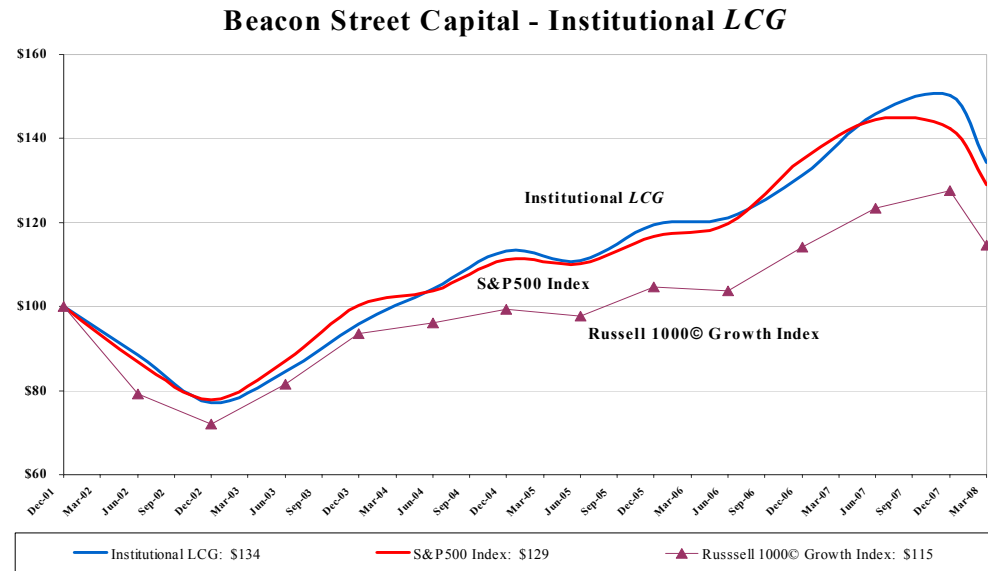
As table 10 illustrates, excess return over the benchmark (alpha) is attained with a high correlation (RSQR) to the benchmark, but with a high standard deviation

(volatility) vs the benchmark. Furthermore, exhibit 11 shows that excess returns can be achieved against the S&P500 as well.

<b>Exhibit 10: Statistics (April 2002 – March 2008)</b>					
<b>Institutional LCG vs Russell® Growth</b>					
<b>Alpha</b>	<b>RSQR</b>	<b>Standard Deviation</b>	<b>Tracking Error</b>	<b>Sharpe Ratio</b>	<b>Information Ratio</b>
2.77%	0.91	14.3 vs 12.8	4.44	0.20	0.58

Source: Informa Investment Solutions

**Exhibit 11: Value of \$100 Invested December 2001 to March 2008**



<b>Exhibit 12: Net Returns vs Benchmarks</b>				
	<b>1Q08</b>	<b>1Year</b>	<b>3Yr. Avg.</b>	<b>Inception</b>
<b>Institutional LCG</b>	-10.58%	-0.83%	6.36%	4.84%
<b>Russell 1000® Growth Index</b>	-10.18%	-0.75%	6.33%	2.22%
<b>S&amp;P 500 Index</b>	-9.44%	-5.08%	5.85%	4.16%

*Terry E. Burke*  
Chief Executive Officer

### About the Firm

Beacon Street Capital provides affluent individuals and business professionals in the Southeast with a conservative, consistent, long-term approach to managing money that has generated excess returns with reduced volatility. Our strategy reflects sound investing principles, delivered with a sophisticated level of financial services. We believe our clients deserve nothing less.

We select for our clients individual equity securities that show positive internal growth potential and financial strength. These securities are held and actively

## First Quarter 2008 Newsletter

monitored in a separately managed account held by an independent custodian, and we provide detailed quarterly updates.

Whether growing assets for retirement or building a family estate, we believe that wealth properly managed is wealth with a future. Please contact us to explore how we can help you with this process.

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### Definitions:

<sup>1</sup> *Standard Deviation*: A measure of volatility, or the range of a portfolio's performance. The more an investment's return varies from its average, the higher the standard deviation. Unlike *beta*, which measures volatility relative to the market, standard deviation is a measure of total risk, or the total variation of the return. The lower the standard deviation the lower the risk, or volatility of the portfolio.

<sup>2</sup> *Sharpe Ratio*: A measure of risk-adjusted return. The Sharpe Ratio incorporates the standard deviation and the excess returns over 90-day Treasury bills to measure the reward per unit of risk. The higher the ratio over 0.0 the better the investment's historical risk-adjusted performance.

<sup>3</sup> *Information Ratio*: One of the most important tools for measuring the performance of an active manager against an appropriate benchmark. It is the ratio of excess returns to standard deviation of excess returns of the portfolio, and is used to estimate the return added by the manager for each 1% of risk added by the manager. A 5-year average *Information Ratio* over 0.50 is considered "good", over 0.75 "very good", and over 1.00 "exceptional".

<sup>4</sup> *Beta*: Measures volatility in relation to the benchmark (or market). A portfolio with a *beta* of 1.5 means that the portfolio return is expected to move 1.5 times the benchmark return. If the benchmark return is 10%, the portfolio return is expected to be 15%. If the benchmark return is -10%, the portfolio return is expected to be -15%. A low *beta* represents lower volatility, which is often associated with low returns; a high *beta* represents higher volatility, which is often associated with high returns. It is unusual to have a combination of high returns and low volatility. However, a good manager picking outstanding stocks can provide excess returns without adding excess risk. This is called "adding *alpha*".

<sup>5</sup> *Alpha*: Measures the return added by the manager. It is the excess return over the benchmark return, adjusted for volatility.

<sup>6</sup> *R-Square*: Measures the correlation between the portfolio return and the benchmark return, or how well they fit from a statistical standpoint. A correlation of a 1.00 means a perfect fit and any number over .70 means the *Alpha* and *Beta* measurements are meaningful.

<sup>7</sup> *Tracking Error*: The standard deviation of the excess returns. The lower the tracking error the lower the risk.

<sup>8</sup> *Russell-1000® Growth Index*: This Index is more representative of the overall large capitalization market and thus more representative of our investment style. It is also widely used by institutional consultants, such as *Informa Investment Solutions Inc.*, which tracks and reports our performance through its *PNS Manager Database*, when seeking investment managers for their clients.