

BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

Institutional-level Money Management for Individuals

October 1, 2008

Highlights

- Our S&P500/Select strategy performed in line with the Russell 1000® Growth Index but under-performed the S&P500 Index due to its under exposure to Financials.
- 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.

Third Quarter 2008 Newsletter

At the end of the second quarter we discussed the potential for a decline in oil prices over the next six months which would benefit consumers and businesses world wide. The weakness in the U.S. economy seemed to be centered on the financial and housing markets, with the rest of the economy still chugging along. The decline in the equity markets appeared to be merely a correction that would be reversed with lower oil prices and an easing of credit. However, the rapid fall in commodity prices revealed the extent of leverage used by hedge funds and investment firms to make huge bets that commodity and housing prices would continue to rise. The result was forced liquidations to cover redemptions and panic selling by the public. In less than two months shareholder value in Fannie Mae, Freddie Mac, Merrill Lynch, AIG and Lehman Brothers were virtually wiped out. With them went the rest of the market as the S&P500 Index declined -8.37% and the Russell 1000® Growth Index declined -12.33%. The S&P500 Index benefited from a rise in Financials which represent 15% of the Index.

By the end of September the S&P500 Index had fallen -29% from its October 2007 high. There have been 23 Bear Markets during the last 100 years and the declines have ranged from -16% (1998) to -89% (1929-1932). So how deep will this one be? It primarily depends on the extent of government intervention. The last time an entire sector collapsed was the S&L crises of 1989 and the federal government allocated 6.5% of GDP, although the amount spent was less than 3%. With this crisis the federal government has allocated about 5% of GDP and governments around the globe have also intervened to re-capitalize their banking systems. The U.S. is a \$14 trillion economy and the potential problem appears to be \$1-2 trillion. We now face a deeper recession than the one anticipated only three months ago, but the equity markets may have over-reacted due to fear mongering by the news media. The best investments are made when fear grips the market, so we see this as an opportunity to put cash to work in specific high quality companies that show positive growth potential in earnings and dividends.

Best Regards,

BEACON STREET CAPITAL, LLC

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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.**

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**Exhibit 1:
DowJones/Select**

Top Ten Holdings

McDonalds Corp	10.1%
IBM Corp	8.7%
Procter & Gamble Co	8.3%
Johnson & Johnson	7.7%
Caterpillar, Inc.	7.2%
Microsoft Corp	6.9%
Coca-Cola Co	6.5%
Intel Corp.	6.1%
United Technologies	6.1%
AT&T Inc.	5.5%

In our Newsletter last quarter we discussed the expectations for oil prices to decline, but believed that all the bad news was not out yet regarding the mortgage and housing markets. Both events transpired to an extreme almost unimaginable which took Wall Street and Washington by surprise. As Warren Buffett said, “When the tide goes out you see who the naked swimmers are.” In the quarter’s final month there was more drama than we might expect to see in a generation: Fannie Mae and Freddie Mac were taken over by the government, Lehman Brothers filed for bankruptcy protection, American International Group Inc. sought protection from insolvency by taking \$85 billion in loans from the government in exchange for almost 80% of the equity in the company, Merrill Lynch & Co. effectively sold itself to Bank of America, Washington Mutual Inc. was sold to J.P. Morgan Chase after being seized by banking regulators and Wachovia Corp. was sold also with the help of the regulators. In addition, Goldman Sachs and Morgan Stanley, the last two of the investment banking titans both filed to become bank holding companies in order to avoid what may have been their demise as well. So in the space of one month we saw the two largest bank failures in U.S. history, the essential failure of one of the largest insurance companies in the world and the exit of two of the largest investment banks.

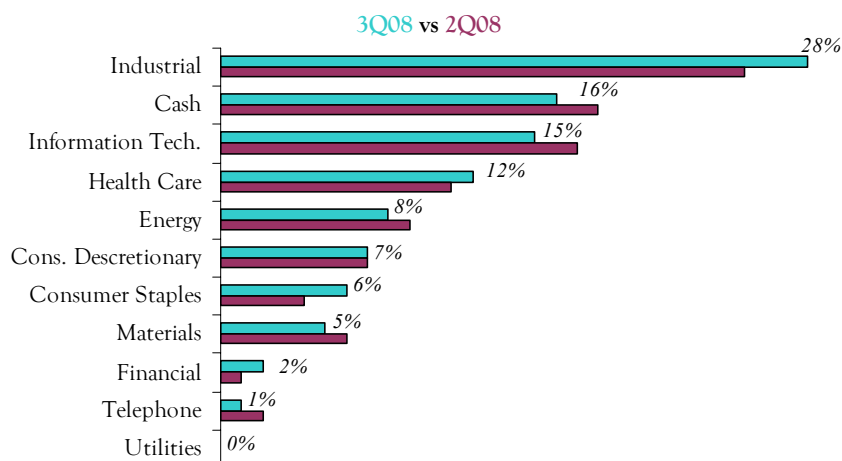
**Exhibit 2:
S&P500/Select**

Top Ten Holdings

Monsanto Co	3.1%
C S X Corp	2.6%
McDonald’s Corp.	2.6%
General Dynamics	2.3%
Gilead Sciences Inc	2.3%
UST Inc.	2.2%
Apple Inc	2.1%
Praxair, Inc.	2.0%
Covance	1.9%
Procter & Gamble	1.9%

Meanwhile the difficulties in the market continue and while the fourth quarter is still young it has not gotten off to a promising start by any measure. Although Washington acted on the financial rescue package in the early days of October, the credit crunch is ongoing and a feeling of doom and gloom persists among many market pundits. In our last Newsletter we said, “... the trading pattern seems to continuously be financials getting punished while energy gets rewarded.” Recently the pattern has reversed with financials being rewarded while industrial and energy companies have been punished as the price of oil has dropped from its highs of near \$150 a barrel to today’s price of near \$90 a barrel. Obviously, long term, lower energy prices are in our best interest and will benefit the global economy. The questions are will energy prices maintain these levels or continue to recede and how long will it take for lower prices to have an economic impact. The overall economic picture in the U.S. has deteriorated recently as the unemployment rate has risen to 6.1% and inflation has remained somewhat

Exhibit 3: S&P500/Select Sector Weighting



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elevated. While not official yet, as U.S. GDP has yet to experience a negative quarter, it seems almost certain that the U.S. economy is either in recession or on the verge of recession. The global economy has also slowed markedly so there are fewer places to pick up any slack today. While we can hope the government's rescue plan will have positive effects, any benefit from that plan will be drawn out and it will take significant time to determine the impact. In other words it appears we are still on that long trip in an automobile packed with small children. At some point things will get better but the trip has a ways to go just yet.

There are many villains in this story, both past and present, including administered interest rates held too low for too long that fueled a steep run-up in housing prices, regulators who did not regulate, mortgage agencies and overzealous bankers employing too much leverage, rating agencies not understanding the risks they were rating and investors relying on ratings rather than good old-fashioned analysis. When the tide went out on housing prices the naked swimmers were too many to count. Years from now there will probably be books and Broadway shows written about this era because it involves the unwinding of the biggest credit bubble in history and the loss of trillions in shareholder value. Meanwhile we must deal with the present and make investment decisions in a much different and more difficult environment. But it is important to remember that we have seen market and economic declines before. In 1974 the Dow fell 49%, only to recover over the next several years and set the stage for the great bull market of the 1980's. In 2000-2002 the S&P500 Index fell 49% which set the stage for a move back up to new highs over the next six years. Equity markets recover well before economic indicators improve; therefore, selling at the bottom and returning when the coast is clear substantially reduces an investor's long-term returns.

The point is that market timing is not a strategy. A recent article in *The Journal of Investing* explored whether investors obtain their long-term returns smoothly and steadily over time or whether their long-term performance is largely determined by the return of just a few outliers. The primary question was how likely were investors to successfully predict the best days to be in and out of the market. The study evidence from 15 international equity markets and more than 160,000 daily returns indicates that a few outliers have a massive impact on long-term performance. On average across all 15 markets, missing the best 10 days resulted in portfolios 50.8% less valuable than a passive investment; and avoiding the worst 10 days resulted in portfolios 150.4% more valuable than a passive investment. Given that 10 days represent less than 0.1% of the days considered in the average market, the odds against successful market timing are staggering.

Since we have no way of knowing when those outlier days in the market will occur we maintain our discipline, through both bull and bear markets, of investing in companies with strong balance sheets and positive internal growth potential. In our opinion, those companies have become extremely attractive and should benefit greatly once confidence is restored to the credit markets.

Herron P. Weems
Managing Director

Performance Summary

DowJones/Select: We made only one change to the portfolio in the quarter

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selling the entire position in AIG. We experienced a near total loss on this position but the chance of it remaining an on-going enterprise was slim. Not even its management knows the full extent of its exposure, let alone losses, related to its credit default swaps. To illustrate, as late as mid-September when the price was \$19, Citigroup analyst had a “buy” rating on AIG with an upside target price of \$40 as management believed losses would be much smaller than previously expected. Four months prior AIG had raised \$20 billion in additional capital and raised another \$3.5 billion in new debt in July, but falling asset prices threatened further downgrades by the rating agencies so the government had to step in to prevent bankruptcy and the associated systemic risks. That is when we stepped out. AIG was one of the titans of the global financial world and the only financial stock we owned in all our portfolios. We, along with others, were completely blindsided by the swiftness and thoroughness of the fall.

This was another tough quarter for Dow Jones Industrial Average companies with fewer than half of the stocks in the index logging positive results for the quarter. We owned four of the positive performers: Procter & Gamble (+14.6%), McDonald’s (+9.8%), Johnson & Johnson (+7.7%) and Coca Cola (+1.7%). Holdings in the middle of the pack included IBM (-1.3%), United Technologies (-2.7%) and Microsoft (-3.0%), while Boeing (-12.7%), Intel (-12.8%), AT&T (-17.1%), Caterpillar (-19.3%) and AIG (-2.7%) brought up the rear. The combined result was a loss for the quarter of -4.57% compared to a loss in the Dow Jones Industrial Average of -4.37% and a loss in the S&P500 Index of -8.37%.

Exhibits 4, 5 & 6 below show the performance of this Mega-cap core strategy.

Exhibit 4: Net Returns vs Benchmarks				
	3Q08	1Year	3Yr. Avg	Inception
DowJones/Select	-4.57%	-15.72%	2.23%	2.73%
Dow Jones Ind. Avg.	-4.37%	-21.89%	0.89%	0.65%
S&P500 Index	-8.37%	-21.98%	0.22%	2.09%

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

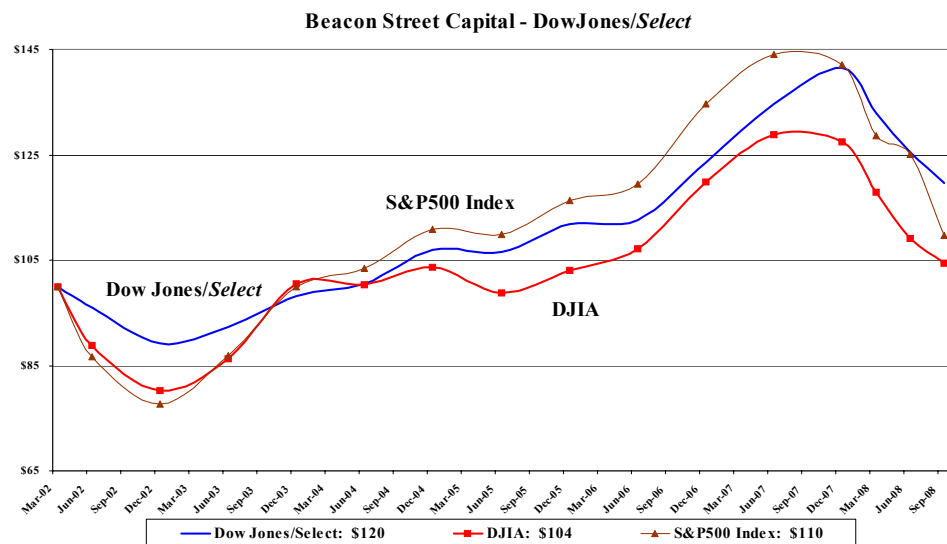


Exhibit 6: 6 Year Statistics (September 2002 – September 2008)

DowJones/Select vs S&P500 Index				
Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
0.71%	7.74 vs 12.23	7.51	0.45	-0.33

Source: Informa Investment Solutions

S&P 500/Select: During the third quarter we purchased five new stocks and sold five for this strategy, leaving a total of 54 stocks in the composite portfolio. This gave us new positions in Industrials (Flowserve and Fluor) and Energy (Apache and Pride Int'l) after selling Halliburton. We also added Eli Lilly to our Health Care sector after selling Zimmer Holdings, and added Intercontinental Exchange to our Financial sector after selling AIG. We also sold Nvidia and Sherwin Williams from the Tech and Consumer Discretionary sectors respectively. The cash position in this strategy decreased slightly to 16% from 18% in the prior quarter.

The third quarter and longer-term composite performance for this Large Cap Growth product can be seen in Exhibits 7, 8 and 9. This strategy performed in line with its primary benchmark, the Russell 1000® Growth Index, but underperformed the S&P500 Index due that Index's heavier concentration in Financials which performed well in the third quarter.

Exhibit 7: Net Returns vs Benchmark

	3Q08	1 Year	3Yr.Avg.	Inception
S&P500/Select	-12.20%	-18.30%	1.93%	3.08%
S&P 500 Index	-8.37%	-21.98%	0.22%	2.09%
Russell 1000® Growth Index	-12.33%	-20.88%	0.04%	0.27%

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

Beacon Street Capital - S&P500/Select

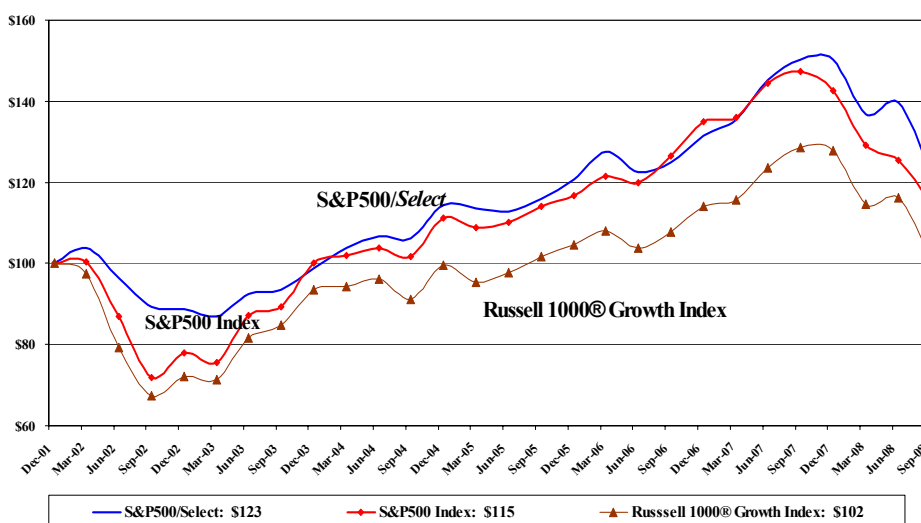


Exhibit 9: 6 Year Statistics (September 2002 – September 2008)				
S&P500/Select vs Russell 1000® Growth				
Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
1.02%	9.50 vs 12.23	6.23	0.42	-0.13

Source: Informa Investment Solutions

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 created an institutional product, currently a model portfolio, using the actual composite trades and dividend income of the S&P500/Select. To stay fully invested we replaced the cash account with an Exchange Traded Fund (ETF). In this case we use the State Street Global Advisors SPDR S&P 500 (SPY).

As table 10 illustrates, excess return over the benchmark (alpha) is attained with a high correlation (RSQR) to the benchmark, but with a higher standard deviation (volatility) vs the benchmark. Furthermore, exhibit 11 shows that excess returns can be achieved against the S&P500 as well.

Exhibit 10: 6 Year Statistics (September 2002 – September 2008)					
Institutional LCG vs Russell® Growth					
Alpha	RSQR	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
2.39%	0.88	12.00 vs 12.23	4.20	0.55	0.48

Source: Informa Investment Solutions

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

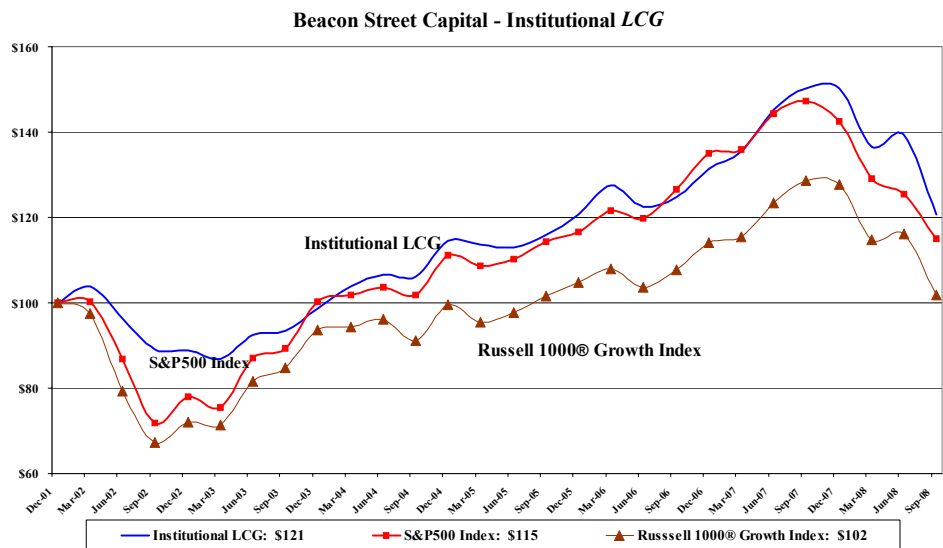


Exhibit 12: Net Returns vs Benchmarks				
	3Q08	1Year	5Yr. Avg.	Inception
Institutional LCG	-13.38%	-21.33%	6.04%	1.76%
Russell 1000® Growth Index	-12.33%	-20.88%	3.74%	0.27%
S&P 500 Index	-8.37%	-21.98%	5.17%	2.09%

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 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.

Definitions:

¹ *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.

² *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.

³ *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".

⁴ *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 call "adding *alpha*".

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

⁶ *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.

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

⁸ *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 *Inforna Investment Solutions Inc.*, which tracks and reports our performance through its *PNS Manager Database*, when seeking investment managers for their clients.