

BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

Institutional-level Money Management for Individuals

January 1, 2008

Highlights

- Assets under management exceed \$28 million from new clients and asset appreciation.
- Our S&P500/Select strategy outperformed the S&P500 Index by 890 basis points for the year 2007.
- 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 with a blend of individually selected growth and value large-cap stocks.

Fourth Quarter 2007 Newsletter

Investors have flip-flopped several times in the past quarter and a half regarding the risk of recession causing rapid advances and declines in share prices with the benchmark indices falling sharply after reaching new record highs in early October. Whether we like it or not this is one of the quirks of the market we must accept and it is why we only look at internal growth potential rather than external anecdotal data and related projections as we select stocks for our portfolios. Should the U.S. economy enter a recession it will most likely be over by the time it is recognized, and large cap companies that do the bulk of their business overseas should be impacted less than most.

As a result of this hand-wringing, the DJIA ended down -4.5% for the fourth quarter while the S&P 500 Index declined -3.3%. These declines cut their gains for the year as the DJIA ended up +6.4% and the S&P 500 up +5.5%. In contrast, our composites were basically flat for the quarter, but for the year both strategies gained +14.4%. The growth oriented Russell 1000[®] Growth Index declined -0.77% for the quarter but ended the year up +11.8%. Thus we were able to outperform our peer group (DJIA and S&P 500 Index) by 800 and 890 basis points, respectively, while outperforming our benchmark (the Russell 1000[®] Growth) by 260 basis points.

During the quarter we saw more opportunities to sell stocks than to buy, which gives some support to the notion of a slowdown in growth over the next quarter but not enough to increase the expectation for a major recession. We will have more data as to the extent of a slowdown when fourth quarter reports come in over the next two months. While the markets almost always go to extremes of optimism and pessimism, we believe it is better for long-term market participants to stay invested as long as growth potential remains positive.

Best Regards,

BEACON STREET CAPITAL, LLC

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¹All 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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The fourth quarter of 2007 offered up another wild and bumpy ride for investors. Volatility became the new watchword after four years of low volatility that had seen an almost constant uptrend in equity prices. In contrast, the just ended quarter had another six trading days, or more than 9% of the days, with greater than a 2% change in the Dow Jones Industrial Average. A typical year will have three or four days with greater than a 2% move in prices. The fourth quarter also had another 19 days, almost 30% of the trading days, with fluctuations of greater than 1% in the value of the DJIA to go with the large number observed in the third quarter. To document the concentration of this volatility, after a relatively calm opening to the quarter when the DJIA and the S&P 500 each hit new all time highs on October 9, each of these 1% and 2% changes in the DJIA occurred after the first three weeks of the quarter had been completed.

The credit markets continued in their almost frozen state which began in the previous quarter. The buyout market and the merger market trudged along at an extremely slow pace as the fallout continued from the housing and mortgage markets. The music has ceased to play in those markets and the financial institutions and originators who were driving the market are still looking for a place to sit down. The conventional wisdom, with which we concur, is that the bottom is not yet in sight for this mess and that there are several more quarters at a minimum before the final tally of losses can be toted up. The Federal Open Market Committee cut the Federal Funds rate another two times in the quarter to 4.25%, a full percentage point below the recent peak, but the betting is that their job is far from over. Many analysts believe the Fed Funds rate could go down closer to 3% in the next year in an attempt to stave off a possible recession for the US economy on which the probability becomes greater every day.

There are positives and negatives, as well as a few neutral factors for the equity markets, as we go forward into 2008. On the negative side are the dearth of liquidity in the market and the economy, high and seemingly unrelenting energy prices, and a sharply lower level of economic activity that manifested itself in a

**Exhibit 1:
DowJones/Select**

Top Ten Holdings

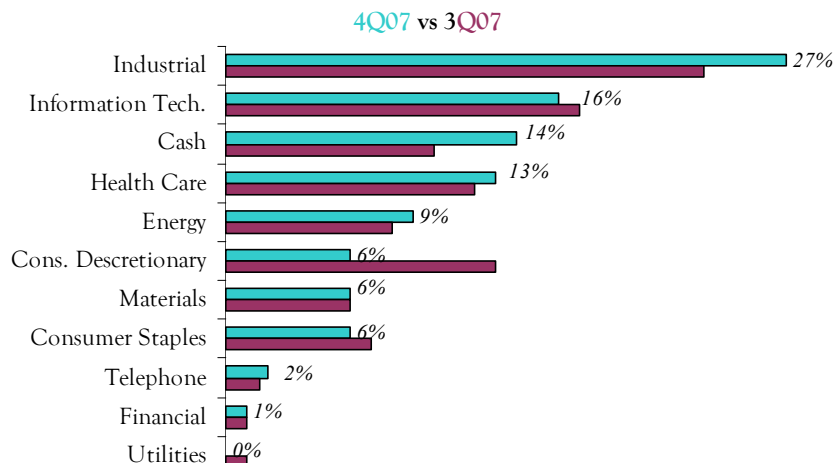
McDonalds	8.2%
Microsoft	7.8%
Honeywell	7.7%
Procter & Gamble	7.4%
Caterpillar Inc.	7.3%
Intel	7.2%
AT & T	7.0%
IBM	6.8%
Boeing	6.8%
Johnson & Johnson	6.3%

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

Top Ten Holdings

Apple Inc	3.1%
Monsanto	2.9%
National Oilwell Varco	2.7%
Praxair	2.1%
McDonalds Corp	2.0%
Google	2.0%
Gilead Sciences	1.9%
Valero Energy	1.9%
Lockheed Martin	1.9%
Aetna US Healthcare	1.9%

Exhibit 3: S&P500/Select Sector Weighting



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sharp slowdown in consumer activity during and after the crucial holiday shopping season. Positives include a more accommodative monetary policy by the Federal Reserve, favorable equity valuations in the market, and a discernible calming in the international geopolitical arena, although there are still plenty of tensions and potential problems to warrant vigilance in this area. Neutral factors would include inflationary expectations that remain somewhat muted as evidenced by the low levels of longer term interest rates and the positive slope of the yield curve, decent corporate earnings although the double digit quarterly advances have come to an end for the time being, and a willingness in Washington by politicians on both sides of the aisle to discuss fiscal policies that will stimulate the economy. The wild card with this is whether any policies that may eventually be enacted will be long-term stimulants that make sense for the economy going forward or whether they will be short-term oriented stop-gap policies enacted for political expediency.

As noted on the first page of this newsletter, the U.S. equity markets extended the bull market run with a fifth straight positive year, with the DJIA rising by +6.4% and the S&P 500 rising +5.5% in 2007. The fourth quarter, however, was a difficult one by any measure with the DJIA falling by -4.5% and the S&P 500 by -3.3%. The last losing year for the S&P 500 was 2002, and the bull market over the past five years has that index rising by a total of 83%. The returns in 2007, although positive overall, reversed multi-year trends in attribution with large-cap and growth oriented stocks, the two major style buckets on which we concentrate, out performing smaller-cap and value oriented stocks by considerable margins. In addition, the fourth quarter decline in the S&P 500 was the first decline in this index in this particular quarter since 2000, and the S&P 500 also suffered its first decline in any quarter since the second quarter of 2006. We are pleased that our rigorous stock selection process allowed us to experience double digit positive performance in both our Dow Jones/*Select* and S&P 500/*Select* strategies for the entire year 2007 as well as essentially breakeven performance in the fourth quarter while both the DJIA and the S&P 500 were suffering.

We will be watching closely in the first quarter as the companies we follow report their financial results. As mentioned in previous reports we believe the quantifiable growth potential we track serves as a valid leading indicator for economic growth and stock performance. In the just ended quarter we had more companies with changes to negative growth potential than companies with changes to positive growth potential and we ended the quarter with fewer stocks and more cash in our portfolios as a result. The volatility in the fourth quarter and the declines in the major market averages may portend a recession and more declines in the market, or a bottom may be reached that will serve as a new base for higher equity prices going forward. We do not know which is in store but we do know that tracking growth potential has served as a stable marker in the past and should as well in the future, so we will continue to follow our methodology and believe this process will benefit our investors and ourselves as we go forward.

Herron P. Weems
Managing Director

Performance Summary

DowJones/Select: There were no purchases of new stock during the quarter, but we did trim our position in Honeywell (HON) to bring it closer to the position size we wish to hold going forward. HON, the top performer of the year in the DJIA with a return topping 36%, had become a bit too large a holding due to this positive performance while we held it. We were fortunate to have sold it near the peak in the market.

We currently hold 14 stocks in our composite portfolio under this strategy with cash representing 11%. Therefore we have enough cash to buy a new position if warranted but with the uncertainty in the economy we are also not opposed to having a cash cushion at the current time. Also, our performance benefited from the tender of our position last quarter in Home Depot. That decision not only gave us a cash cushion to de-leverage the portfolio against the market decline, it also avoided the 27% drop in Home Depot's price during the quarter.

In the fourth quarter we owned seven of the top 10 performers in the Dow Jones Industrial Average including Microsoft Corp (MSFT, +20.8%), Wal-Mart Stores Inc (WMT, +8.9%), McDonalds Corp (MCD, +8.2%), Procter and Gamble Co (PG, +4.4%), Honeywell International Inc (HON, +3.5%), Intel Corp (INTC, +3.1%), and Johnson & Johnson (JNJ, +1.5%).

Unfortunately we also owned four of the bottom 10 performers including Boeing Co (BA, -16.7%), American International Group Inc (AIG, -13.8%), International Business Machines Inc (IBM, -8.2%), and Caterpillar Inc (CAT, -7.5%). The other two portfolio holdings and their performance are AT&T Inc (T, -1.5%) and United Technologies Corp (UTX, -4.9%).

BA received some negative press in the quarter as a result of the discussion of delays in the 787 Dreamliner but the fundamental investment story for BA with its enormous backlog of orders for this and other jetliners gives us confidence that this company will be a solid investment for several years into the future. AIG has been dragged down by association with the mortgage and sub-prime mess although they are not a major player in that field. AIG remains one of the strongest participants in the insurance industry with a significant foothold in the China market. They are the only financial company we are comfortable holding while the mortgage and housing situation sorts itself out.

The fourth quarter and longer-term composite performance for our Large Cap Core product can be seen in Exhibits 4, 5 and 6.

Exhibit 4: DowJones/Select Net Return versus Benchmark					
	4Q07	1Year	3Yr. Avg	5Yr. Avg.	Inception
DowJones/Select	-0.31%	14.42%	9.72%	9.63%	13.98%
Dow Jones Ind. Avg.	-4.54%	6.43%	7.15%	9.72%	5.35%
Russell 1000® Growth Index	-0.77%	11.81%	8.68%	12.10%	4.51%

Exhibit 5: Value of \$100 Invested July 1, 1997 to December 31, 2007

Beacon Street Capital - Dow Jones/Select

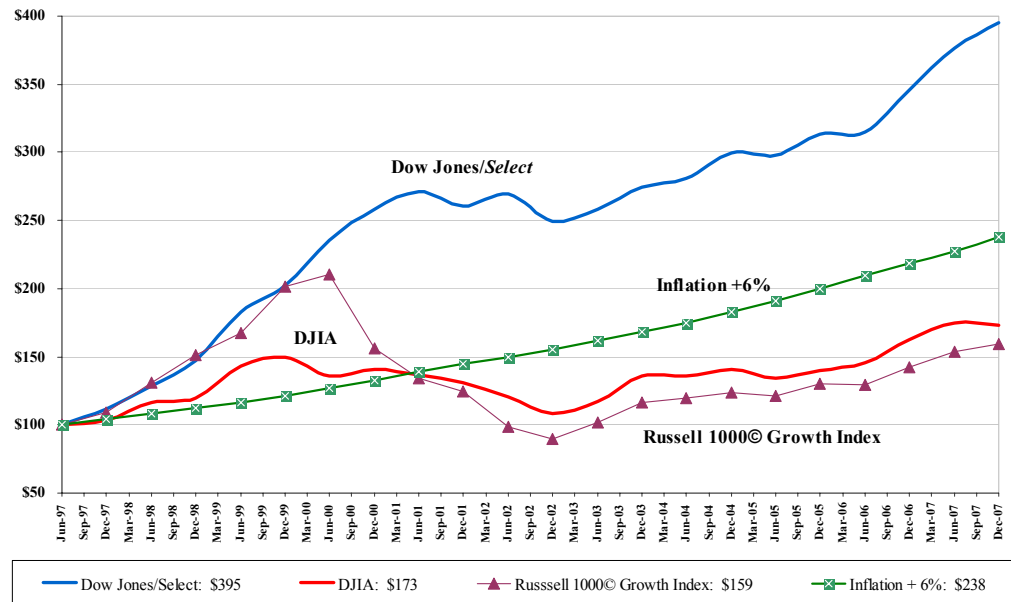


Exhibit 6: Growth and Volatility July 1, 1997 – December 31, 2007

	Growth of \$100	Variability of Returns (Std Dev)	Percentage of Months at a Loss
Dow Jones/Select	\$395	11.17	39%
Dow Jones Ind. Avg	\$173	14.76	43%
Russell 1000 Growth Index	\$159	18.63	45%

S&P500/ Select: During the fourth quarter we purchased seven new stocks and sold eleven for this strategy, leaving a total of 56 stocks in the portfolio. This increased our cash position from 10% to 14% and gave us new positions in industrials, health care and telephone sectors. Of the new purchases in the quarter most came from the industrial sector, such as Cooper Industries (+0.7%), Danaher (+7%), IIT Corp (+4%) and Parker Hannifin (-1%). The other three came from health care (Humana, -3%), energy (Nobel Corporation, +10%) and consumer discretionary (General Mills, -0.4%). The percentage gain or loss listed for each new stocks is from the date of purchase through the end of the quarter.

Stocks that were sold during the quarter came mostly from the consumer discretionary sector (Kohls, Marriott Int'l, J.C. Penney, Stanley Works, and Staples). The remainder came from Consumer Staples (General Mills), Energy (BJ Services), HealthCare (United HealthGroup), IT (Ebay), Industrial (Avery Dennison) and Utilities (Convergys Corp).

The fourth quarter and longer-term composite performance for our Large Cap Blend product can be seen in Exhibits 7, 8 and 9.

Exhibit 7: S&P500/ <i>Select</i> Net Return versus Benchmark					
	4Q07	1 Year	3Yr.Avg.	5Yr. Avg.	Inception
S&P500/<i>Select</i>	0.08%	14.35%	9.51%	11.09%	13.76%
S&P 500 Index	-3.33%	5.49%	8.62%	12.83%	6.64%
Russell 1000® Growth Index	-0.77%	11.81%	8.68%	12.10%	4.51%

Exhibit 8: Value of \$100 Invested July 1, 1997 to December 31, 2007

Beacon Street Capital - S&P500/*Select*

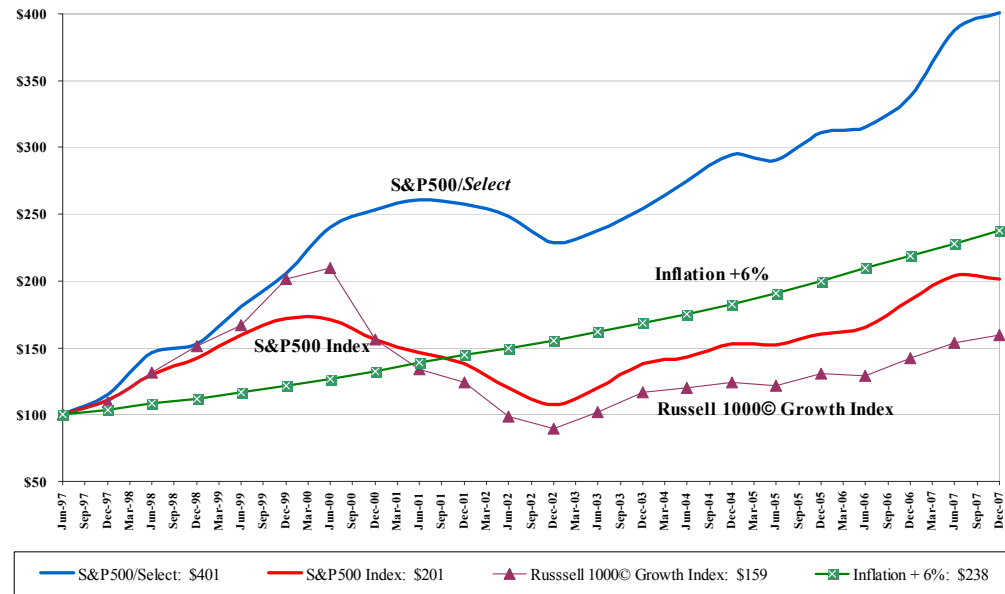


Exhibit 9: Growth and Volatility June 30, 1997 – December 31, 2007			
	Growth of \$100	Variability of Returns (Std Dev)	Percentage of Months at a Loss
S&P500/<i>Select</i>	\$401	11.09	35%
S&P 500 Index	\$201	14.85	39%
Russell 1000® Growth Index	\$159	18.63	45%

Portfolio Risk: Market risk, or volatility, is another factor that has a major impact on the compounding of returns. Exhibit 10 compares the risk and reward characteristics for the past five years of our DowJones/*Select* and S&P500/*Select* composites with the Russell 1000® Growth Index. This information is provided by the PSN Investment Management database and is available through Fidelity Investment’s manager search application.

Exhibit 10: Risk Statistics	*DowJones/ Select	*S&P500/ Select	Russell 1000© Growth
Annualized Std. Deviation (5 Yr.) ¹	6.27	6.43	9.08
Sharpe Ratio (5 Yr.) ²	1.26	1.47	1.02
Information Ratio (5 Yr.)	-.23	-.01	N/A
Beta ⁴	0.46	0.53	1.00
Alpha (5 Yr. Average) ⁵	3.53%	4.32%	N/A
R-Square ⁶	0.52	0.64	N/A
Tracking Error ⁷	6.75	5.96	N/A
Annual Turnover (5 Yr. Average)	31%	55%	N/A

**Source: PSN Investment Management database*

Navigating through the Straits of Dire

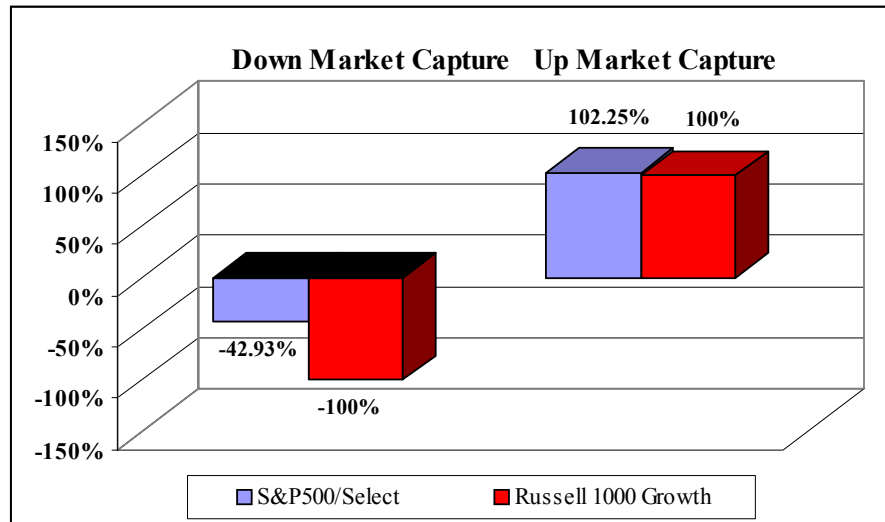
The discipline of equity investors, especially managers, is tested during volatile or down markets as to what to buy or when to sell. Some follow the crowd and often buy into the market near its peak, or sell out of the market near its bottom, as fear and greed get the best of their emotions. In an uncertain world investors must act on partial knowledge, and the source of that knowledge is important. At Beacon Street Capital we rely on our own calculation of internal growth potential while many other investment managers rely on their experience and external data to make predictions. Unfortunately these predictions are often driven by human emotion and are too often influenced by fear of dire consequences which creates a volatile and unpredictable market. As John Bogle pointed out in his speech before the Risk Management Association several months ago, the underlying businesses which represent the market are far less volatile than the market itself.¹ In other words, perception and projections which govern returns earned in the market magnify or minimize the economic reality that governs earnings in the underlying businesses. In the long run the economics of investing trumps the short-term emotions of investing.

The example used by Bogle is to measure the long-term gains of stocks after extracting the returns achieved on the days in which the market had its highest gain or worst losses. In 1950 the S&P 500 Index was at a level of 17 (hard to imagine) and today it is at 1,540. Extracting the best 40 days from the 14,528 trading days that occurred, the total return would drop by 70%.

If the worst 40 days were extracted the S&P 500 Index would be at 11,235 or seven times its current level. The best plan is to stay invested in a strategy that rewards the investor on the upside and provides protection against deterioration in a down market.

One way to measure this is how well the strategy performs in up markets and down markets relative to their benchmark. The chart below compares our S&P500/*Select* strategy with the Russell 1000 Growth© Index over the past three years.

¹Advisor Perspectives, October 11, 2007 “Black Monday and Black Swans”, John Bogle.



What it shows is that our strategy minimizes the downside risk in a declining market like we have had in the fourth quarter, and increases the upside potential which is the norm for stocks over the long-term. This characteristic of our strategy is also reflected in the standard deviation of returns which measures volatility (the lower the better), and the excess returns over the benchmark (known as *alpha*), both of which are illustrated in Exhibit 10 above.

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.

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