

BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

Institutional-level Money Management for Individuals

January 1, 2009

Highlights

- Our DowJones/*Select* strategy was ranked in the **top ten for returns and #1 in terms of risk** by Money Manager Review over the 1, 3, and 7 year time periods ending in the fourth quarter of 2008.
- Relative to our peer group, Beacon Street Capital was named **6-Star Top Gun Manager** in PSN's Large Growth Equity Universe for the 3rd quarter of 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.

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The rapid decline in equity prices in the fourth quarter was astonishing not only in scope but also for the reasons behind the decline. Going into the quarter, based on our analysis of growth potential for the companies that we follow, we expected a garden variety recession concentrated primarily in the housing and related financial sectors. Our portfolio cash positions and sector exposure reflected that expectation, but a panic selloff began after Lehman Brothers went under.

Among the root causes of this financial crisis was an extended period of low interest rates in the U.S. and excess levels of liquidity across the globe. This liquidity was recycled back to the West in the form of portfolio investments seeking higher yields in subprime and other questionable mortgages. This created a speculative bubble in housing prices and when commodity prices collapsed housing prices followed, which drove down the value of subprime mortgages forcing financial institutions to mark down their value. A self-reinforcing downward cycle followed that dried up bank lending. Add to this the liquidation of over-leveraged positions by hedge funds and a selling panic swept across all stocks in October and November.

However, high quality stocks with positive growth potential, the kinds that make up our portfolios, fared better. Our DowJones/*Select* composite beat the DJIA by 796 basis points for the quarter, while our S&P500/*Select* beat the S&P500 Index and the Russell 1000® Growth Index by 448 and 533 basis points respectively. Eventually the curtain will rise on an economic recovery as Governments across the globe initiate stimulus spending programs, plus American ingenuity that provides new products and services will still be in demand. It is our sincere belief that financially sound companies, with secure dividends and positive growth potential will still create value. A portfolio of these stocks, held in a Separately Managed Account, will provide investors the best opportunity to recoup lost wealth with the least amount of risk.

Best Regards,

BEACON STREET CAPITAL, LLC

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	9.5%
Pfizer	7.2%
Procter & Gamble Co	6.8%
AT&T Inc.	6.3%
Coca-Cola Co	6.3%
Johnson & Johnson	6.1%
Caterpillar	6.0%
IBM Corp.	5.8%
United Technologies	5.3%
Microsoft	4.7%

Exhibit 2: S&P500/Select

Top Ten Holdings

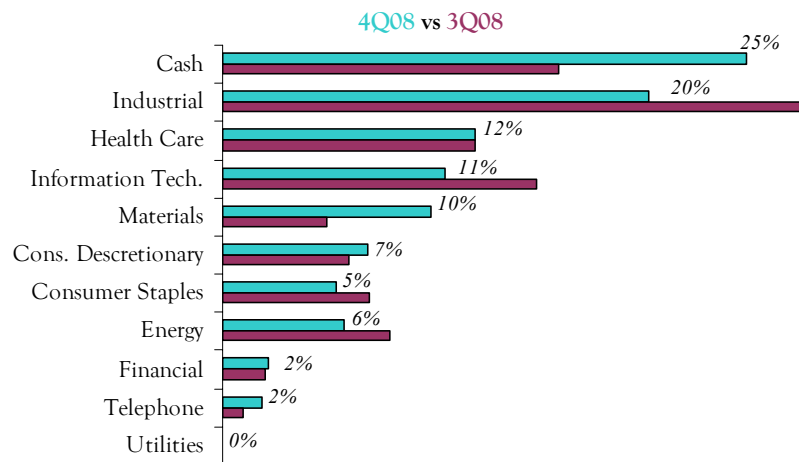
Gilead Sciences Inc	3.2%
McDonald's Corp.	3.2%
UST Inc.	2.8%
Monsanto	2.7%
Eli Lilly	2.7%
Pfizer	2.4%
Freeport McMoran	2.2%
Conoco Phillips	2.1%
General Dynamics	2.1%
Procter & Gamble	2.1%

The fourth quarter of 2008 was one of the worst periods on record for the financial markets, both domestically and globally. In the U.S. a far-reaching credit crisis prompted the Government to step in with multiple rescue packages that began a comprehensive transformation of our financial sector. U.S. consumer spending recorded dramatic declines as the economy slid deeper into recession. Across the global divide economic growth plummeted, commodity prices dropped precipitously and demand for export goods fell sharply. No region was spared and central banks and Governments around the world rushed in with stimulus packages and plans for more stimulus as the issues deepened and the need for help became more acute.

One of the more surprising aspects of the market action in the most recent period was just how quickly events unfolded and how rapidly markets declined. The recent market sell-off put an exclamation point on what has become one of the steepest and most sudden bear markets in U.S. market history. With a 52% decline from the October 2007 peak to the November 2008 trough, this has become the third worst bear market for U.S. stocks since 1926 and one of the most rapid at 14 months as of the end of 2008. As bad as things were in the U.S. they were even worse around the world with both developed country stocks and emerging country stocks suffering their worst years on record.

Last year in our fourth quarter Newsletter we talked about market volatility being the new watchword after four years of below average volatility in the equities markets. Little did we know that we were just scratching the surface at that time. *Barron's* reported in early December that since 1950, covering a span of almost 15,000 trading days, the Standard and Poor's 500-Stock Index had gained or lost 4% or more in a single day only 68 times. There were 33 down days and 35 up days. Of those 68 days 28, or 41%, occurred in just the prior three months. There was also one additional up move of greater than 4% before the end of the quarter. Additionally, Fidelity Investments has reported that the entire year 2008 was the most volatile year on record since the Great Depression. They state that almost

Exhibit 3: S&P500/Select Sector Weighting



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17% of all trading days in 2008, which translates to an average of nearly one day per week, ended in either an up or down move of 3% or more compared to the beginning of the day trading level. In 2003 7% of the trading days had moves of 3% or greater, the highest number of days in the past 70 years. So 2008 was more than twice as volatile, by this measure, compared to the next most volatile year of the past 70. Another interesting tidbit is that 2008 was the first year since the 1930s that saw the U.S. stock market rise by more than 10% in a single day – and it did so twice.

The good news is that we will eventually get out of this malaise, our economy will recover and stocks will begin to move higher again. There were several positive factors from the past quarter. The Federal Reserve slashed short-term interest rates to near zero and pumped hundreds of billions of dollars into our financial system through a number of initiatives. Energy and other commodity prices declined and this will provide relief to both consumers and businesses, and help reduce the concern of inflation for the foreseeable future. U.S. stock valuations also have reached their most compelling levels since the recession that ended in 1982. And finally the renewed violence in the Middle East and the terrorist attacks in India had little or no effect on the markets.

Given all that has happened in the recent past, we ask ourselves what should our strategy be for 2009? We believe it should be the same as in 2008 and prior years, seeking financially strong companies with solid growth potential, and adding an emphasis on high and sustainable dividends. There probably will not be many new names to purchase but those that do emerge will certainly be less expensive than they were just a few months ago and should set the stage for higher returns in the future. If we are going to be invested in the market we cannot escape the general fate of American businesses when times are difficult, but by owning the stocks of solid companies our clients can do less poorly than the broad markets in the short-term and continue to generate excess returns over the long haul.

Herron P. Weems
Managing Director

Performance Summary

DowJones/Select: We made two changes to our DowJones/Select portfolios during the quarter, selling Boeing Co (BA) and purchasing Pfizer Inc (PFE). Growth potential for BA turned negative and with the machinist union appearing to be settling in for a long strike we felt it was time to move on even though the stock looked undervalued by many measures. A long strike in a recessionary environment is not a menu for stock price gains. PFE is showing positive growth trends, has a particularly strong balance sheet, generates enormous amounts of cash and returns a large amount of cash to shareholders creating a hefty 7.2% dividend yield. Self financing companies should be winners in this environment and healthy dividends should provide a cushion to the downside should the market begin to slide again. Large dividends will also boost returns in these difficult times.

In the quarter we owned two of only four positive performers in the Dow Jones

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Industrial Average including AT&T Inc (T, +2.1%) and McDonalds Corp (MCD, +0.8%). Additionally PFE was up 8% from the day we bought it through the end of the quarter. We owned seven stocks in the top half of the DJIA and our worst performer was International Business Machines Inc (IBM, -28%). By contrast there were eight DJIA stocks that were down more than IBM including all four of the financial names in the index, of which we owned none. These included JPMorgan Chase & Co (JPM, -32.5%), American Express Co. (AXP, -47.6%), Bank of America Corp (BAC, -59.8%) and Citigroup Inc (C, -67.3%). Citigroup Inc was the worst performer in the DJIA. Even with the government's TARP funds the financial sector performed horribly. The combined result was a loss for the quarter of -11.18% compared to a loss in the Dow Jones Industrial Average of -19.14% and a loss in the S&P500 Index of -21.94%.

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

Exhibit 4: Net Returns vs Benchmarks				
	4Q08	1Year	5Yr. Avg	Inception
DowJones/Select	-11.18%	-24.91%	1.57%	0.84%
Dow Jones Ind. Avg.	-19.14%	-33.84%	-3.44%	-2.49%
S&P500 Index	-21.94%	-37.00%	-2.19%	-1.63%

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

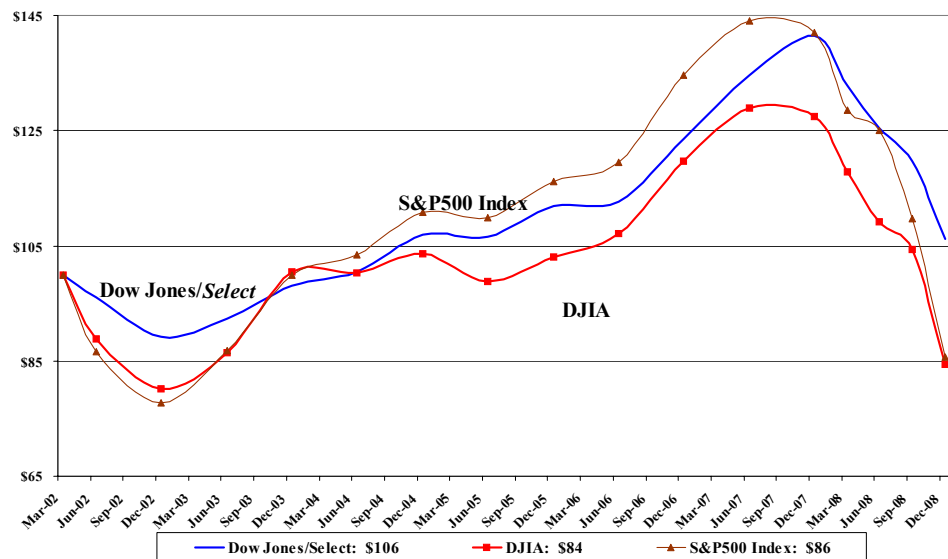


Exhibit 6: 5 Year Statistics (January 2004 – December 2008)				
DowJones/Select vs S&P500 Index				
Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
2.88%	9.63 vs 12.86	6.61	-0.03	0.76

Source: Informa Investment Solutions

S&P 500/Select: During the third quarter we purchased four new stocks, added at the margin to three positions and sold 10 for this strategy, and we now own a total of 48 stocks in the composite portfolio. This gave us new positions in

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Materials (Mosaic Co) and Energy (ConocoPhillips) after selling Baker Hughes Inc. We also added Pfizer Inc to our Health Care sector while selling Aetna Inc, Humana Inc, Schering Plough Corp and Wellpoint Inc.; and added mining company Freeport McMoran Copper & Gold while selling Industrials Boeing Co, Precision Castparts Corp and Raytheon Co. We also sold NetApp Inc and Nike Inc from the Tech and Consumer Discretionary sectors respectively. The cash position in this strategy increased to 23% from 16% 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 outperformed both its primary benchmark, the Russell 1000® Growth Index and the S&P500 Index by significant margins in the fourth quarter although all of the returns were negative.

Exhibit 7: Net Returns vs Benchmark				
	4Q08	1 Year	5Yr.Avg.	Inception
S&P500/Select	-17.46%	-32.61%	0.53%	0.19%
S&P 500 Index	-21.94%	-37.00%	-2.19%	-1.54%
Russell 1000® Growth Index	-22.79%	-38.44%	-3.42%	-3.38%

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

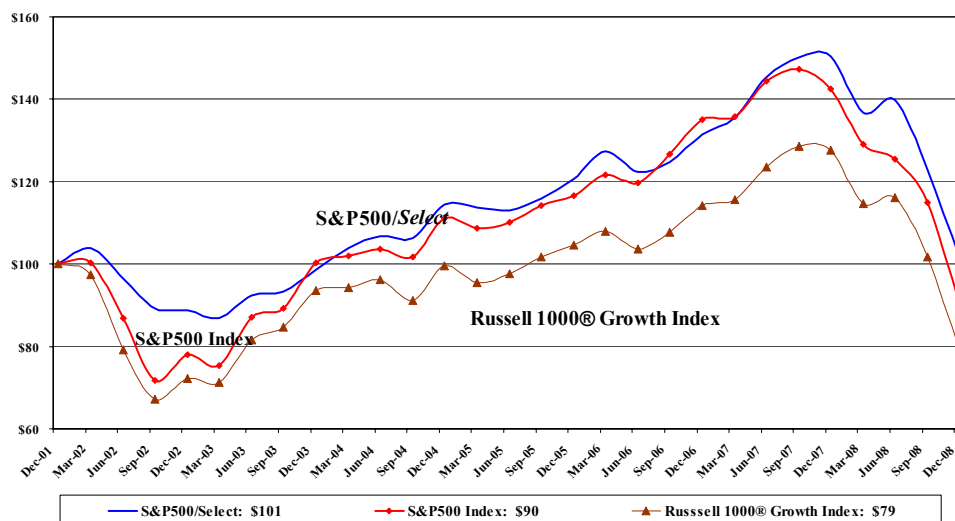


Exhibit 9: 5 Year Statistics (January 2004 – December 2008)				
S&P500/Select vs Russell 1000® Growth				
Alpha	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
4.09%	12.78 vs 14.16	4.44	-0.10	1.17

Source: Informa Investment Solutions

Institutional LCG:

Institutional investors seek to gain *alpha* with a high benchmark correlation. They

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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: 5 Year Statistics (January 2004 – December 2008)					
Institutional LCG vs Russell® Growth					
Alpha	RSQR	Standard Deviation	Tracking Error	Sharpe Ratio	Information Ratio
4.13%	.93	14.79 vs 14.16	3.80	-0.16	1.09

Source: Informa Investment Solutions

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

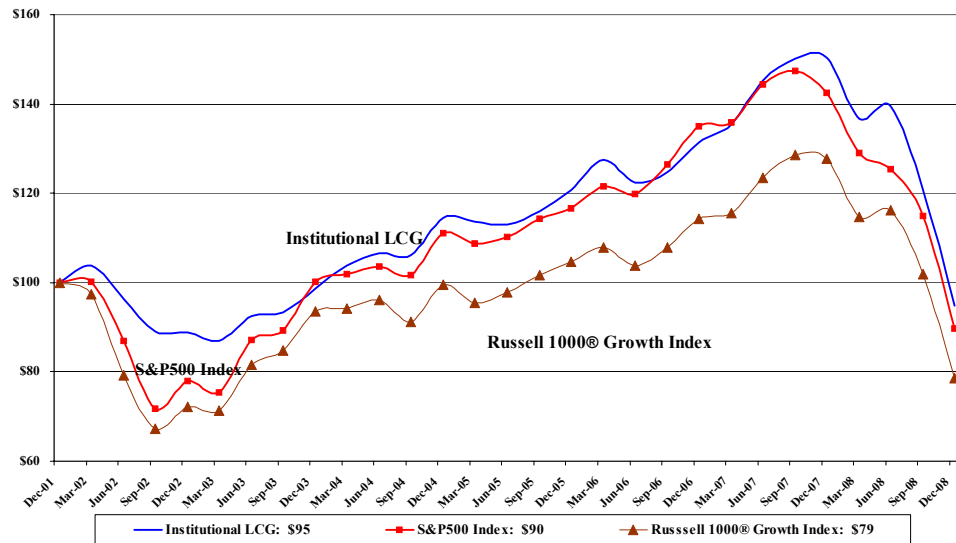


Exhibit 12: Net Returns vs Benchmarks				
	4Q08	1Year	5Yr. Avg.	Inception
Institutional LCG	-22.82%	-39.57%	-1.07%	-1.37%
Russell 1000® Growth Index	-22.79%	-38.44%	-3.42%	-3.60%
S&P 500 Index	-21.94%	-37.00%	-2.19%	-2.02%

About the Firm

Beacon Street Capital, LLC, 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

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