

BEACON STREET CAPITAL, LLC

INVESTMENT MANAGEMENT

Institutional-level Money Management for Individuals

April 1, 2007

Highlights

- Growth stocks back on track. As we mentioned last quarter, we expected growth stocks to be back in favor for 2007 and were not disappointed as our S&P500/*Select* strategy beat the S&P500 Index by 242 basis points in the first quarter.
- Volatility for our portfolios remains significantly less than their benchmark indices, and this dramatically improves the impact of compounding on long-term returns.

First Quarter 2007 Newsletter

The U.S. equity markets appeared to be headed to significantly higher ground in the just finished quarter with the Dow Jones Industrial Average (DJIA) making nine new record highs in the first half of the quarter before a 426 point (3.3%) plunge on February 27 in the wake of a 10% drop in the Chinese markets. From that point volatility became the order of the day as the DJIA seesawed back and forth before settling in at 12,354.35, down 108.80 points at quarter-end for a quarterly loss of -0.87%. In contrast, our performance, net of fees, for our DowJones/*Select* strategy was essentially unchanged.

The Standard & Poor's 500-Stock Index still has not set a new record high but did move slightly higher in the quarter by +0.64%, including dividends. The Russell-1000[©] Growth Index was up 1.19%, as growth stocks got back on track as we expected. In comparison, our S&P500/*Select* strategy increased 3.06%, net of fees.

Investor sentiments in the quarter moved more towards fear as the economy continued to grow at a slower pace, inflation readings remained at uncomfortably high levels, the housing market received more bad news and fears began to spread that losses among sub-prime mortgage lenders could spread more generally in the lending community. As a result of these difficulties in the housing and housing finance markets, the odds appear to have increased that the economy will continue to slow for a few quarters but most prognosticators still believe a recession will be dodged in 2007. That being said the soft landing many were projecting may not be as soft as hoped for just a few months ago. Nevertheless, we remain optimistic as our internal measurements of growth potential continue to remain strong.

Best Regards,

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¹All results are un-audited and net of fees. Composite returns began November 2001 for the S&P500/*Select* and March 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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Market Insights

Many of the same factors we have discussed in the past will continue to weigh on equity prices going forward. The weaker trend in economic activity has continued with GDP growth coming in at +2.5% in the fourth quarter after being revised higher from an earlier estimate of +2.1%. The housing slump continues to have a major hand in the economic downtrend and questions about the growth in corporate profits have been getting greater play recently. Consumers will continue to have a difficult time tapping their home equity to support growth in spending. After 14 consecutive quarters of double digit profit growth, projections for the first quarter peg profit growth at around 3.5%. This is down from a projection for 3.75-4.00% growth just a few weeks ago. Energy prices have also been edging higher in recent months with the price of a barrel of oil having moved back to almost \$66 in recent weeks. Unless this trend reverses, the effect on the economy will be towards slower growth.

The other side of this equation is that non-manufacturing activity retains some strength, non-farm payroll growth remains brisk with the unemployment rate dropping to a new five-year low of 4.4% in March, and wages are still increasing at a healthy pace. The major questions in the minds of investors seem to revolve around the housing market and whether (or when) the Fed will cut short-term interest rates to stimulate the economy. Unfortunately the elevated readings on inflation in recent months do not bode well for the Fed lowering rates anytime before the mid-point of the year. The recent increases in oil prices also will not give the Fed cover to lower the short-term rate in the near future. As we have said before, unless consumer spending falters dramatically or the Federal Reserve Board makes an error on the interest rate front, the odds probably still favor avoiding a recession in 2007 although not by a large margin.

On balance we continue to see a larger number of companies than normal exhibiting positive internal growth potential and we currently own more stocks in our clients' portfolios than we have in recent memory. This fact (see page 6, *The Importance of Tracking Growth Potential*) along with the observation that stocks in general appear to not be over-valued currently gives us some confidence that we will see the market and the economy in general on a positive tack in the months ahead. We do not believe we will see robust growth but at this point our analysis also does not point to a general business slowdown or recession. Equity returns may remain somewhat sluggish over the next few quarters but

Exhibit 1: DowJones/Select

Top Ten Holdings

McDonalds	8.9%
Boeing	7.8%
Caterpillar	7.6%
Procter & Gamble	7.2%
Honeywell	7.1%
AT & T	7.0%
Microsoft	7.0%
IBM	6.8%
United Technologies	6.8%
Home Depot	6.3%

Exhibit 2: S&P500/Select

Top Ten Holdings

Apple Inc	2.8%
Penney, J.C.	2.0%
Valero Energy	1.9%
Coach Inc	1.8%
Gilead Sciences	1.8%
Lab Corp of America	1.8%
CSX Corp	1.7%
Caterpillar Inc	1.7%
Cisco	1.7%
Eaton Corp.	1.7%

Exhibit 3: S&P500/Select Sector Weighting

	<u>1Q07</u>	<u>4Q06</u>
Industrial	23%	20%
Information Tech	17%	20%
Consumer Disc	16%	12%
Health Care	13%	12%
Consumer Staples	11%	10%
Energy	8%	7%
Cash	7%	16%
Materials	3%	2%
Telecomm Services	2%	1%
Financial	0%	0%

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large losses do not appear to be in store either. We will be looking closely at the next round of financial reports issued by our universe of companies and believe this information will be critical to understanding the expectations for the remainder of 2007.

Herron P. Weems
Managing Director

Performance Summary

As we mentioned in the last newsletter we expected higher equity prices in the first quarter absent a major surprise. We got the “major surprise” and a market correction ensued. But that is what markets do as investor’s price in future expectations, be they real or imagined.

DowJones/Select: During the quarter we made several changes to the portfolio by adding two new companies, Walt Disney Company (DIS) and Johnson & Johnson (JNJ), plus we trimmed back several winning positions as the market was rising. We currently own 14 stocks in this strategy and are essentially in a fully invested position with cash representing only 1.3% of the portfolios.

Of the top performing stocks in the Dow Jones Industrial Average this quarter we owned six, and of the significant losers we also owned six. As a result the return for the quarter was relatively unchanged. The longer-term performance can be seen in Exhibits 4, 5, and 6.

Exhibit 4: DowJones/Select Net Return versus Benchmark				
	1Q07	1Year	3Yr. Avg.	Inception
DowJones/Select	-0.08%	8.37%	7.89%	13.56%
Dow Jones Ind. Avg.	-0.87%	11.21%	6.05%	5.01%
Russell 1000 Growth Index	1.19%	7.06%	7.01%	3.80%

Exhibit 5: Net Returns as of 1Q 2007

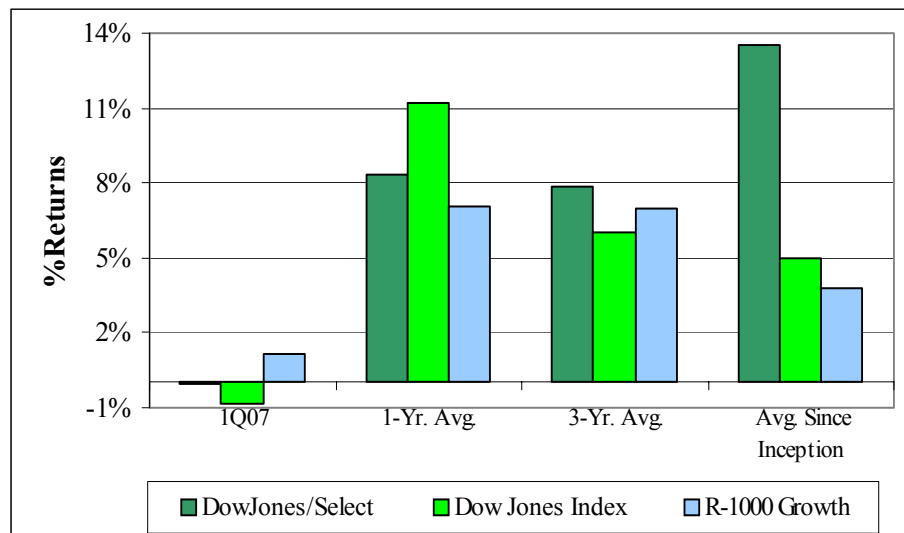
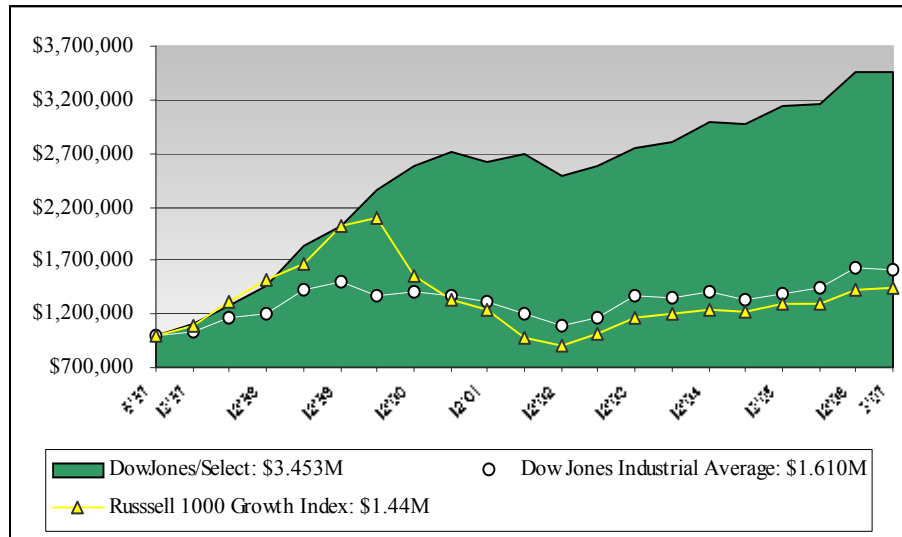


Exhibit 6: Growth of \$1Million since Inception



S&P500/Select: During the first quarter we purchased 12 new stocks and sold seven, leaving a total of 62 stocks in the portfolio. We also trimmed our position in Coach (COH) as it had performed extremely well and had become a larger position than we were comfortable with. These trades reduced our cash position to 8% from 16%, and raised our allocation primarily in industrial and consumer discretionary stocks. The impact can be seen in Exhibits 7, 8, and 9.

Exhibit 7: S&P500/Select Net Return versus Benchmark

	1Q07	1Year	3Yr. Avg.	Inception
S&P500/Select	3.06%	6.33%	9.26%	13.68%
S&P 500-Stock Index (w/ dividends)	0.64%	11.83%	10.05%	6.65%
Russell 1000 Growth Index	1.19%	7.06%	7.01%	3.80%

Exhibit 8: Net Returns as of 1Q 2007

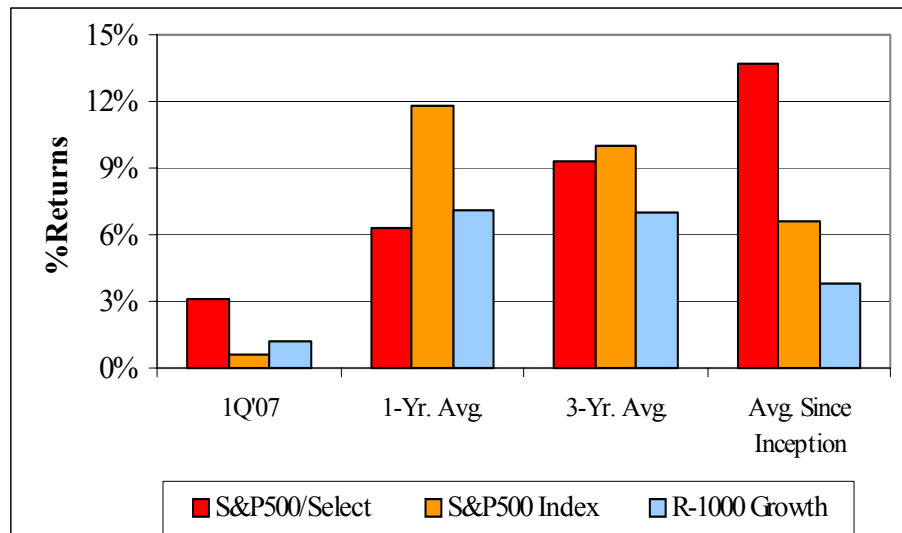
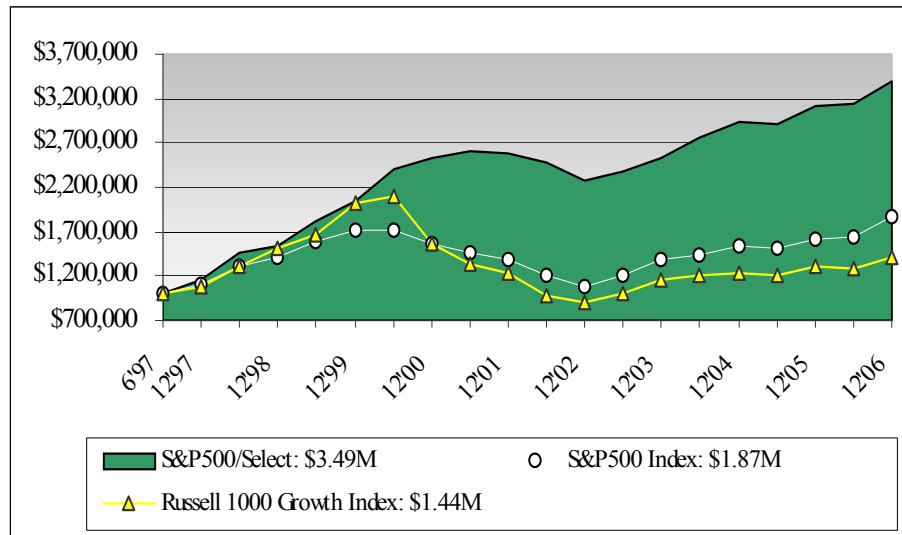


Exhibit 9: Growth of \$1Million since Inception



Portfolio Risk: Market risk, or volatility, is another factor that is important to consider because of its major impact on the compounding of returns. As Exhibit 10 shows, the volatility for the DowJones/*Select* and the S&P500/*Select* composites over the past five years, as measured by standard deviation (SD) of returns, continues to be well below that of their respective benchmarks although returns have been similar.

Exhibit 10: 5-Year Risk Reward Characteristics: 2Q'02 – 1Q'07

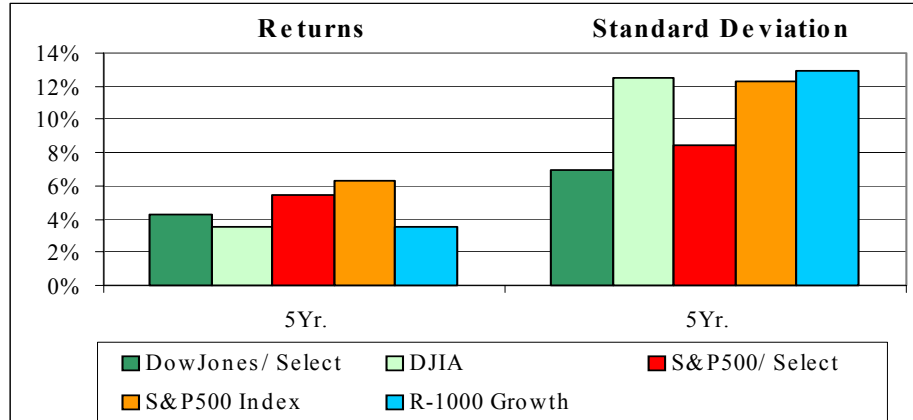
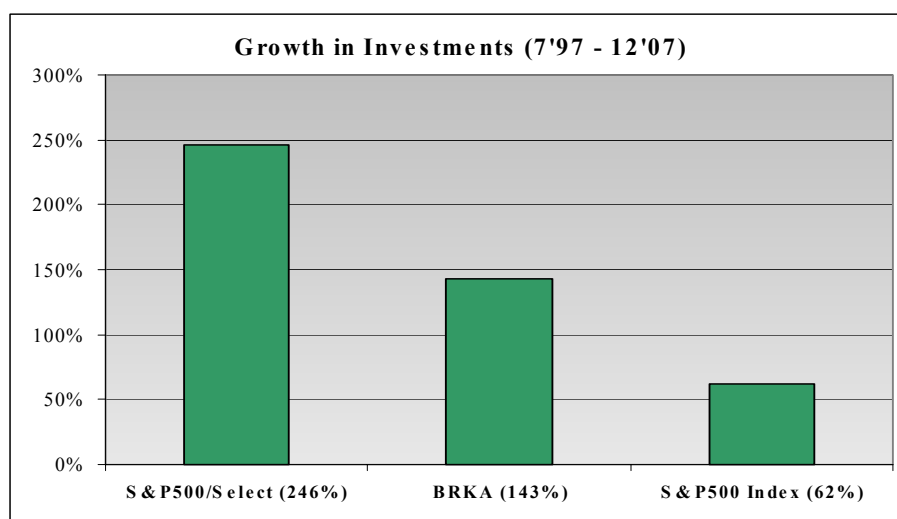


Exhibit 11 compares the risk and reward characteristics for the past five years of our DowJones/*Select* and S&P500/*Select* composites with the DJIA and the S&P 500 Index. This information is provided by Informa Investment Solutions, Inc. and is available through Fidelity Investment's manager search application.

Exhibit 11: Risk Statistics	DowJones/ <i>Select</i>	DJIA	S&P500/ <i>Select</i>	S&P 500 Index
Annualized Std. Deviation (5 Yr.) ¹	6.97	12.50	8.47	12.29
Sharpe Ratio (5 Yr.) ²	0.41	0.13	0.49	0.35
Information Ratio (5 Yr.)	0.04	N/A	0.21	N/A
Beta ⁴	0.36	1.00	0.47	1.00
Alpha (5 Yr. Average) ⁵	2.26%	N/A	3.41%	N/A
R-Square ⁶	.65	N/A	.73	N/A
Tracking Error ⁷	10.57	N/A	9.17	N/A
Annual Turnover (5 Yr. Average)	26%	N/A	49%	N/A

The Importance of Marketable Securities

Warren Buffett made an interesting observation in his recent letter to shareholders of Berkshire Hathaway. In the early years, 1965-1995, high returns were achieved by investments in marketable securities. In the past 10 years Berkshire's focus has been more on acquisition of operating businesses and this has dampened the returns. Therefore it seemed appropriate to compare the growth in our investment strategy, which focuses on marketable securities, with the growth in Berkshire Hathaway's acquisition strategy since 1997:

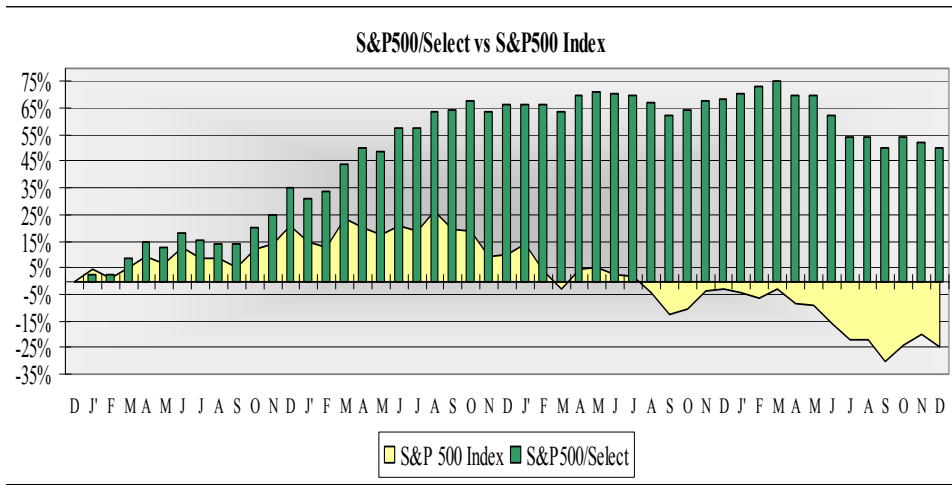


The Importance of Tracking Growth Potential

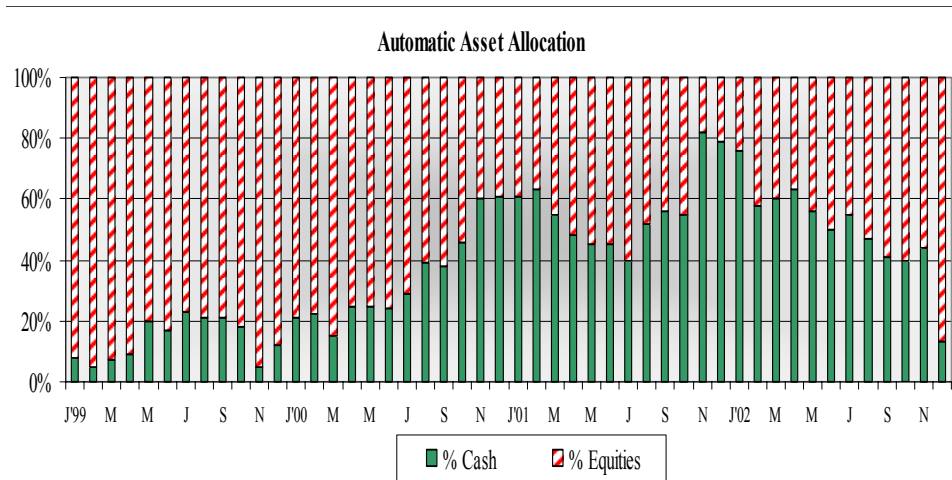
What causes most investors to under perform over the long-term is their tendency to exit the market when short-term volatility creates fear. A decade from now, the accumulated value from selected marketable securities will be higher and most likely will outpace the accumulated returns in both an Index of stocks or business acquisitions. But how can one be certain that a huge bear market will not appear over the near-term horizon? While no one can predict what *will* happen, we have found that by monitoring each quarter the change in internal growth potential for all stocks that make up a market we can determine the probability of what *should* happen.

As our investment strategy has demonstrated in the past, specifically in the transition from bull market of 1999, when our cash levels hit a low of 8%, to the bear market of 2002, when cash levels hit a high of 80%, there is a direct correlation between positive (negative) change in growth potential and near term gain (loss) in the market. This is best illustrated in the two charts below which show that the cumulative gains achieved in our S&P500/*Select* portfolio during the bull market were maintained during the bear market as cash levels rose prior to the market decline. Cash levels began to decline in the second half of 2002 prior to the resumption of the bull market in 2003 which we are still enjoying.

Accumulated Percentage Change in S&P 500/Select vs S&P 500 Index
January, 1999 – December, 2002



Asset Allocation Between Cash & Equities: S&P500/Select
January, 1999 – December, 2002



Implications on First Quarter

What we saw in the first quarter of 2007 was a sudden decline in stock prices despite strong positive growth potential in the stocks that make up the market. This indicated to us that the downturn was a correction in an on-going up trend and that so far has proven to be the case. Should we see a negative change in growth potential for some companies next quarter, those stocks will be sold, our cash levels will rise, and this should indicate the potential for a market downturn.

Measuring internal growth potential on a consistent basis to identify stocks to either buy or sell, which creates an automatic asset-allocation between stocks and cash, is the *unique* value Beacon Street Capital adds to portfolio management.

About the Firm

Beacon Street Capital provides affluent 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. 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.

Terry E. Burke
Chief Executive Officer

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 called "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.