GREENSPRING
WEALTH MANAGEMENT

February 26, 2009

Dear Client,

The events of the past six months have created fear and panic not seen since the Great Depression. This fear, which in many ways is justifiable, has led most individuals to question the investment strategy they have chosen and whether it is still viable. Greenspring Wealth Management is not immune to these same feelings of fear and questioning. As a fiduciary, we must always act in your best interest and we continue to ask ourselves, "Do the events that have transpired require us to change our strategy?" In some cases, the answer has been yes. In others, no. We are writing this letter to inform you of our thoughts on the current crisis and what we are doing to manage your assets prudently.

There are only a few major mistakes investors can make over their lifetime. The most common (and most damaging) is selling good long-term investments at depressed prices. We have both commented that our biggest fear is not the destruction of capital that has taken place thus far, but our client's reaction to this destruction. The reason it is so difficult for individuals to successfully keep pace with the market is times like these. Instincts tell us to sell, but relying on emotion can be extremely dangerous when investing.

Rather than recounting the greed and excess that brought us to this point, we think it is more important to take stock of where we are and what we are doing now. As we write this the S&P 500, the main index that tracks US stock prices, has lost half its value from its peak in 2007. American businesses and real estate have lost nearly $15 trillion in value during this time. This loss represents about three years of wages for an average American household. In the midst of this carnage the real question at this point is, "what do we do now?"

It is times like this that we believe going back to fundamentals is essential. First, recessions are a normal, healthy part of the business cycle and they tend to wring out the excess supply caused during expansionary periods. Today we are working through the excess of an overvalued and overbuilt real estate market along with overleveraging of many households and businesses. This has been and will continue to be painful for everyone, but this process will bring forth the start of the next bull market.

Unfortunately, we here at Greenspring don't know when that will be, but if history is any guide, the recovery will begin while economic data and investor sentiment remains negative. At these levels, our view is that the risk of missing the eventual recovery outweighs the benefit achieved by avoiding short-term losses. As an example, we reviewed the last 13 bear markets, and found that the market increased an average of 46% in the twelve months following the market low. These gains typically occurred in the face of considerable bad news and pessimism.

Out of curiosity, we decided to look at the worst period our economy (and stock market) has ever been through; the Great Depression. From the peak of the stock market in 1929 it took an investor until 1945 (over 15) years to get back to breakeven when accounting for dividends. While the Great Depression has some similarities to our current situation, it could be argued that many more safeguards, like bank deposit insurance, should help avoid the complete collapse caused during the 1930s. If this period proves to be as bad as the Great Depression and it take us 15 years to get back to breakeven, the stock market would need to generate nearly 10% per year for the next 6

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years. With that knowledge, we believe there is a probable chance that we will look back at this as the worst period of equity returns this country has ever seen.

Does that mean we should throw in the towel and give up on equities? We believe the answer is unequivocally, no. Even if it takes the equity markets ten more years to breakeven from their highs in 2000, making it the worst period on record, returns from these levels would still be in the 7% per year range. This compares very favorable to safe, fixed investments like CD's and bonds, which are yielding between 0 to 4%. How is it that we believe equity returns could be in this range with all of the bad news being dumped on the economy? Mainly because the market is a leading indicator and has already priced in this bad news.

Let us end with a quote from a recent Op-Ed piece in the NY Times by Warren Buffet that illustrates this point well;

> "A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10 and 20 years from now."

We encourage you to contact us with any questions you may have regarding your investment strategy or portfolio holdings. Know that our role as a fiduciary is not taken lightly and we are continually humbled by the trust and confidence you have placed in us.

Very truly yours,
Greenspring Wealth Management, Inc.

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