945 Technology Blvd., Suite #102, Bozeman, MT 59718

April 5, 2011

Dear Client,

Greetings! Enclosed, please find your Third quarter performance report. The first quarter of 2011 certainly left no shortage of discussion matter for this letter. Still fresh in the minds of many is the earthquake/tsunami tragedy in Japan or even the geopolitical events of North Africa. Lessons for every part of life can be taken from such events and without trying to minimize their severity and tragedy, our focus will be their impact from an investment perspective and what can be learned from them. First, however, is a quick overview of how the markets fared over the previous three months.

Markets in January and February reflected a continuation of last year's positive sentiment, spurred by solid corporate profits and a broad consensus that although the global economy might not experience a strong recovery going forward, it would see growth. However, as March approached the markets experienced a set-back but regained footing toward the end of the month as positive economic growth reports in the US and Europe helped them recover lost ground. Developed markets generally saw gains at the end of the first quarter that put them on track for solid performance in 2011. US markets ended the quarter up 6% with World Markets up 4.5% respectively (source: MSCI).

Learning to live with uncertainty

"The only certainty is that nothing is certain"

Pliny the Elder, First century Roman author and naval commander

"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."

Mark Twain, 1835-1910

While markets are deemed to be efficient (all meaningful information is known and reflected in the value of the overall market), there are some things that just flat catch us by surprise, meaning despite all our efforts to forecast the future, can't be anticipated. The events of this past quarter serve as case in point and the above quotes, though written nearly two millennia apart, highlight two key lessons to be taken from not only these events, but many similar episodes from our past.

Lesson one: Expect the unexpected

The only way to deal with uncertainty and manage the impact of unforeseen events is to build strict risk controls into portfolios, similar to those used by the most sophisticated pension funds. While the risk of one-time incidents can't be eliminated, through diversification and risk management we can limit the damage when negative events occur. As covered in your Investment Policy Statement, a summary of the steps we take with regard to risk management in your portfolio are as follows:

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Step one: Identify the Strategic Allocation - First, we identify the strategic mix of stocks and bonds that, based on historical precedent and current valuation levels, will over time have a high likelihood of providing the returns you need to achieve your long term goals with a level of volatility you can live with along the way.

Step two: Diversify- Next, using passively managed funds that provide a comprehensive exposure to the markets, we carefully diversify your portfolio by placing limits on the exposure to any one asset class. It is important to note that we avoid individual holdings for the simple reason that picking individual holdings (stocks in particular) makes it difficult to diversity and has not proven successful over the long–term. By owning the entire market, the guess work of figuring out which industry, sector or region (market timing) is eliminated.

Step three: Stay balanced- In the final step, at least once a year we conduct an in-depth analysis of each portfolio. Over time, asset classes that do well will increase their presence in your portfolio and bump up against the risk-control limits. At that point, your portfolios need to be rebalanced to stay within risk-control limits. While some investors find this concept difficult (why sell what is doing well!), it's the only way to stay truly diversified and control the risk that accompanies overexposure to any one asset class and it's also the only way to get some protection from things that simply can't be anticipated.

Lesson two: Avoid overconfidence

Aside from the time entailed, there is one big negative to the risk-controlled approach to portfolio construction – in the short and mid-term, there will always be someone who's made a big bet that's paid off and who is doing better than you as a result. Because it eliminates big bets, a risk-controlled approach to investing will seldom give you bragging rights at the office or at the next cocktail party.

Investors who take the big-bet approach typically have a high degree of confidence in their investments; after all, if you're absolutely certain about a company or industry, why diversify or reduce exposure? Research by the University of Chicago's Richard Thaler and others has demonstrated that overconfidence is among the most costly traits an investor can have (the Tech bubble of late 90's is case in point). The earlier quote of Mark Twain says it all – what gets us in trouble aren't the things we've identified as question marks and causes for concern but rather, portfolios crater because of the things that we're absolutely positive about – right until unanticipated occurrences catch us by surprise.

Unexpected events have and always will be part of our lives - and despite these, economies have grown, companies have prospered and stock markets have generated positive returns. The key to benefiting from this long-term growth, as we so often preach, is to have a strategy that protects you so that no single event can create permanent damage to portfolios. When it comes to long-term investing, it's not only that a slow and steady approach wins the race, but more importantly slow and steady survives to cross the finish line! As we've stated several times to you over the past couple of years, we will work through the recent events– and investors with a balanced approach and a long-term view will be well rewarded. The approach to risk management described may not be fun or sexy in the short term, but all the evidence at hand suggests that over time it will serve you well, getting you to your goals with the least amount of stress and distress along the way.

As always, thank you for the opportunity to work together.

Best regards,

Doug Babcock Bob Frey