

Since the end of the second quarter, the stock market has continued the decline that began in early May. Higher interest rates and energy costs and now escalating violence in the Middle East have combined to increase investor uncertainty. Stock market volatility has escalated and we are seeing exaggerated declines in many individual companies in addition to the broad decline in the overall market. These trends, which reflect heightened investor concerns, are usually seen closer to market bottoms than tops.

We certainly understand and share the concern regarding these issues. However, we think the Federal Reserve's rate hikes will conclude soon. Yes, energy prices may remain stubbornly high for the foreseeable future but consumers only spend 4.5% of their disposable income to keep the car running. At current prices it is not pleasant but it is manageable. The renewed fighting in Israel and Lebanon is tragic and the outcome is difficult to predict. It impacts oil prices and increases the possibility of a disruption in the flow of oil if the violence spreads to other oil-rich Middle East countries.

In the meantime, the decline has caused valuations in our market to move to multi-year lows. U.S. stocks are now trading under 14 times this year's expected earnings. Stocks have not been this attractively valued since 1989. You most likely remember the superior market returns that occurred in the following years. The international economy is in terrific shape, led by China, India, Japan (after a decade of stagnation), and the U.S. economic juggernaut. Corporate earnings grew at a rate in excess of 10% again in the second quarter, continuing a streak of double digit earnings gains that is now 13 quarters long.

This decline has been painful and troubling. While we can't predict when it will end, in the past whenever share prices have reached the current valuation level long term investors have always been amply rewarded. Successful investing requires discipline and patience. We at Mitchell Capital will continue to adhere to the disciplines that have served our clients well over close to two decades. We thank you for your continued support and look forward to reporting to you after better periods in the quarters and years ahead.

Sincerely,

Rich S. Jones
Vice President