MITCHELL CAPITAL MANAGEMENT

MCM Market Outlook

JANUARY 2008

4th Quarter Letter

For the first time since 1999 the growth sector led the market. The disparity in growth rates between growth and value stocks became the catalyst to draw investors back to the growth sector. It can continue because the growth sector is still significantly under valued. Your stock portfolio actually is a better value today than it was a year ago. Why? Because the companies grew their earnings in 2007 at an average rate in excess of 20%, which is more than the stocks appreciated.

It was an unusually volatile year for now well documented reasons centering around the sub-prime mortgage market meltdown. That problem resulted in several global commercial banks and investment banking firms absorbing substantial losses that materially weakened their capital structure. That led to serious questions being asked about the financial viability of the firms at the core of the global capital market, companies like Citigroup and Bear Stearns.

The extent of the sub prime loss in each firm was initially unknown. Rumors about large losses triggered periodic sharp stock market declines. Each sell off was followed by a quick recovery as investors refocused on strong global business trends. The rumors began to be replaced with facts as the companies started announcing the extent of their losses and taking corresponding write offs. The losses are big and materially weakened each company's financial position forcing them to seek new capital. That process is well under way. Several have announced big capital infusions from Middle Eastern and Asian sovereign funds and other equity sources. In addition some non core profitable businesses are being sold to raise more capital.

We expect that process will be largely completed over the next sixty days. Then investor attention will once again be focused on earnings.

We are frequently asked if the decline in house prices and corresponding drop in new home construction won't throw the U S economy into a recession. It is certainly possible, but if it happens, it will be short lived (one or two quarters) and, importantly, will be accompanied by even lower interest rates. If it occurs, it won't last long because the engines of global growth, China, India, Russia, etc. are doing fine. In fact the strongest part of our economy is the export sector which up until now has more than offset the weakness in the housing sector.

The Federal Reserve and the European Central Bank responded to the credit market weakness by cutting interest rates and injecting substantial funds into their respective banking systems. That process is continuing and we expect several more interest rate cuts.

That means the two most important drivers of stock prices, declining interest rates and rising corporate profits are at work today.

The problems in the sub-prime credit market precipitated a "flight to quality" in the bond market. In that environment U S Treasuries and high quality tax exempt municipal bonds became the preferred securities followed by high quality corporate bonds. Those are the sectors we always invest in and consequently the combination of interest income and appreciation in the underlying securities generated a taxable equivalent total return on the bond component of your portfolio of 8%. Given our continuing focus on high quality, intermediate term bonds, the portfolio is well positioned as we move into 2008.

In about three weeks your companies will begin reporting their 2007 results and commenting on the outlook for their respective businesses. We think it will be good reading and should get the New Year off to a good start.