July 17, 2009

Enclosed is your statement for the second quarter of 2009.

For the quarter, equity investors saw total returns of 15.93% for the S&P 500, 11.96% for the Dow Jones Industrial Average and 20.34% for the technology-oriented NASDAQ.
For the quarter, fixed income investors saw total returns of 0.31% for the 1-year Treasury Index, -3.18% for the 5-year Treasury Index, and -6.30% for the 10-year Treasury Index and the 10-year BB- corporate bonds had total returns of 11.30%. The quarter presented equity and corporate fixed income investors with a recovery in prices as the frozen credit markets began to thaw. Investors were enthused by reports of highly touted "green shoots," but nervous about increasing unemployment and the challenges to implementing government programs designed to counteract recessionary trends.

We want to follow our customary practice, now that the 2008 results are in, of commenting on the earnings growth of the companies that formed the bulk of our investments last year. As we have written previously, we look for long-term (10 years or more) aggregate earnings growth of 6-8% per year in the companies we hold in our portfolios. While the stock market's valuations can be erratic over the short term, over the long term the market is much more judicious about value. Earnings growth is what ultimately drives market value growth. During 2008, we held the following twenty-one companies for the entire year. We have listed the changes in their year over year earnings per share (EPS) changes in percentage terms after the company names:

Company	**% Change in EPS***
Allstate Insurance	-68%
American Express	-31%
Berkshire Hathaway	-62%
Burlington Northern	17%
Comcast	20%
Hershey Foods	-11%
Home Depot	-30%
Intel	-24%
Johnson and Johnson	7%
Legg Mason	-26%
Masco	-75%
McGraw-Hill	-18%
Microsoft	28%
Moody's	-33%
Pfizer	-47%
Sysco	18%
Time Warner Cable-A	5%
Time Warner	-12%
Unitedhealth Group	-21%
Wal-mart	6%
Wyeth	-1%

*For EPS, we have used Value Line's most recent numbers. These EPS represent Value Line's best attempt at a description of after-tax operating earnings per share. The only exception was Legg Mason, in whose case we adjusted for the support costs of their money market accounts.

After weighting the results for the size of our holdings, the average *decrease* in the EPS of each stock holding was 17% last year. Just as in the two preceding years, the average reflects some cyclical factors, but 2008's results were not cyclical, but systemic. But, after taking these credit issues into account, EPS decreases were much less severe. In fact, we were quite pleased with the operating results generated by the employees and managements of our holdings and, as our clients know, we used the market volatility to increase our positions in them.
We highlight earnings regularly, because it puts the focus on the crucial long-term issues of company development. Comparing earnings volatility with price volatility also typically provides an insight into how short term price fluctuations exaggerate the change in valuation. However, last year's systemic issues clouded this comparison, as they caused both price volatility and EPS volatility to be high.

We continue to find in today's environment a disconnect between price (what you read in the paper) and value (what such an asset would bring in a private sale between two business-minded investors) which is just as severe as in 1999, but in reverse. Back then, the price was wildly higher than the value - particularly in technology, whereas today's price is wildly lower than the value - particularly in finance. Markets do these things and therein lay the opportunities.

As stated in the 1994 Berkshire Hathaway annual report: "we have usually made our best purchases when apprehensions about some macro event were at a peak. Fear is the foe of the faddist, but the friend of the fundamentalist."

That said, we understand that our clients may not find themselves awash in excess money to invest and that downward price movements can be disturbing. As a result, we do our best to limit that volatility without impairing future investment results. For example, we are careful to limit the amount we invest within some distressed areas, such as financials today. A common reaction for investors is to avoid those areas altogether, but this leads to inferior long term results. In order to generate superior returns with less risk, investors must find bargain price opportunities and exploit them.

We hope this letter helps you understand our process. We want you to stay informed and feel comfortable about our investing discipline. If you're new to Academy, past quarterly letters may be useful and may be obtained through your financial advisor or Sue Compton at our office. In addition, our website (at www.academycapitalmgmt.com) has our investment reports on the individual holdings in your portfolio.

As always, we appreciate the stewardship responsibilities you entrust to us and your patience with our investment process

Academy Capital Management