

Quarterly Newsletter

3rd Quarter - 2007

Market Overview:

It has certainly been an interesting 3 months! While the market return figures shown below do not show it, volatility returned to the market in full force in the last quarter. While the media will always seek to make a big deal about these kinds of market gyrations, they are mostly irrelevant. When the market wobbles around a few % just because Oil prices are up or Gold is down, or foreclosures in California are rising; it makes for good headlines and some nice chatter on CNBC but is generally not that relevant to the value of the companies and investments we own stakes in.

Returns* ended 9/28/2007:	1 Qtr Return	1 Year Return	3 Year Return (annualized)
Wilshire 5000 Index (Ticker: VTI)	1.54%	16.92%	13.91%
MSCI World Index (Ticker: EFA)	2.09%	24.68%	22.12%
Lehman Aggregate Bond Index (Ticker: AGG)	2.71%	4.75%	3.66%

Subprime on Primetime:

The term 'Subprime Lending' is now part of mainstream vocabulary. The recent (highly publicized) woes in the US housing market have certainly taken a toll on many of the players in the lending industry. After a very long stretch of strong price gains in the housing sector many lenders had loosened their standards a bit too much on who should qualify for a mortgage, and what rate they should pay. The result of this loosening of credit to many more marginal home buyers only increased the housing rally by allowing more folks to buy into the rising market.

Now that home prices are starting to cool off and come back down to more reasonable levels (although, in my opinion, they are not there yet), the lending industry is realizing that when they extend a loan to someone, the recipient of that loan must be able to actually earn the income to make the payments in the future. Lenders can no longer assume that house prices will appreciate fast enough that the loan can be refinanced in the future.

This is a very basic idea 'Only lend money to people who can pay you back with their own income'; but in the past several years this simple idea had been forgotten by many institutions. While there will be many negative repercussions of the lax lending standards, I don't believe any of them will have a permanent effect on the market. The lesson has been learned by the many parties engaged in foolish acts, and prudence should increase going forward (at least until greed triumphs over reason again sometime in the future...).

Investment Updates:

I would like to provide an update on a few of our investments this quarter. Note that while many investments are held across all Remick Capital client accounts, oftentimes due to either the timing of investment cash flows, account size, or risk tolerance, some investments discussed below may not be in your account.

* The Wilshire 5000 Index is a collection of stocks that is designed to approximate the returns of the entire US Stock Market.
The MSCI World Index is a collection of stocks that is designed to approximate the returns of the global stock market with US stocks removed.
The Lehman Aggregate Bond Index is a collection of bonds that is designed to approximate the returns of the entire US Bond market.
All returns are based on Exchange Traded Fund (ETF) returns to make the numbers representative of actual investor returns.

Fairfax Financial (NYSE/TORONTO: FFH) – In the 3rd quarter Fairfax shareholders were treated well. Fairfax, which at its heart is an insurance company, owns a few hundred million dollars worth of credit protection (this can best be described as insurance against bankruptcy) on various North American financial companies (lenders, insurers, banks, etc).

As the market turmoil surrounding the US housing and lending market exposed itself in August, the market prices for the kind of bankruptcy insurance that Fairfax purchased increased astronomically. In some cases, the increase was as much as 5 to 10 times in value. The full extent of the impact that this investment will have on Fairfax will not be known until the next few quarterly earnings reports are released at Fairfax, but suffice to say that with all the panic surrounding insurance companies, lenders and banks, Fairfax has positioned itself well to weather the storm and profit handsomely from it. I view this as yet another sign that the management team at Fairfax is watching out for potential risks that others in the industry may be missing. I sleep well at night having this company in our portfolios.

Compton Petroleum (NYSE: CMZ, TORONTO: CMT) – The 3rd quarter was not a great one for Compton. 2nd quarter earnings were weak due to weather interruptions at their sites in Alberta Canada. In addition, Natural Gas pricing was fairly weak over the summer months as the weather was not exceedingly hot, and there were no hurricanes to disrupt North American energy supplies. On top of that, projected futures prices for Natural Gas delivery next year are coming down a bit which is also putting some downward pressure on expectations for Compton next year. Compton has announced that due to more attractive drilling rig rates, they will be doing a substantial amount of drilling in the second half of 2007 which should help expand production and increase reserves.

While it's never fun to see operational or macro-economic hiccups at our companies, it is bound to happen from time to time. In the case of Compton, the investment case remains unchanged. There exists a strong fundamental case for natural gas prices materially above the current pricing, and with Compton's large base of Gas rich land, solid management, and technology savvy, I believe strongly that they will be able to profit handsomely from the ever growing energy demand.

Progressive Corp (NYSE: PGR) – The headlines don't make good reading for Progressive shareholders these days. Every month the company reports that its profits are down. While it is always nice to see profits increasing, that was not at all my expectation for Progressive this year. The profit margins that they earned last year appeared unsustainable and were certainly due for a drop. However, even at a more normalized profit level I still believe Progressive shares are a bargain. There is intense competition in the Auto Insurance space among Geico, Progressive, State Farm and Allstate, but Progressive is making and will continue to make the appropriate steps to insure its success. On a side note, it is of great comfort to know that we as shareholders have excellent partners running this business for us. Founder/Chairman Peter Lewis is still an owner of around 7% of the stock and CEO Glenn Renwick is a very skilled manager who works to benefit all shareholders equally. As an example of this, Progressive paid a \$2 per share special dividend this quarter in addition to buying back approximately 2% of the outstanding shares.

I mentioned in my last quarterly letter how for certain companies a *decrease* in share price can actually mean an *increase* in share value because of the increasing effectiveness of the buyback plan (getting more shares for the same amount of money). Progressive is an example of such a company. In fact, in the last monthly report, the company stepped up their repurchase program and bought back more than 1% of their outstanding shares. This would be like a company paying a 12% dividend (1% x 12 months) but because it is a repurchase, and not a cash dividend, it doesn't get any headlines and no one in the press seems to care. I would like to point out to clients though that with each passing month, we as shareholders own a bigger percentage of Progressive. This may not be something that appears to be rewarding in terms of stock price appreciation lately, but once profitability growth gets back on track, we will own a bigger piece of a very profitable and growing company.

As always, my money will be invested right alongside yours so you can be sure that I will work diligently to make sure our investments will be profitable ones; regardless of the market conditions. I appreciate the trust you have placed in Remick Capital as your Investment Advisor; I will work hard to make our relationship as mutually profitable as possible.

If you ever have any questions about this report, your investments, or anything financial in general; please do not hesitate to call.

Sincerely,

Benjamin Hacker
Principal,
Remick Capital, LLC