R&W

ROBINSON & WILKES, LTD.

INVESTMENT MANAGEMENT

QUARTERLY NEWSLETTER THIRD QUARTER 2007

The Long & Short of It

The third quarter of 2007 was an "Amusement Park" quarter as Wall Street went back to the roller coaster ride, only to find that Ben Bernanke and the Federal Reserve were managing the park. In the face of massive mortgage refinancing, with interest rates resetting to higher levels, investors began to ask for a little more yield in return for the increasing risk they perceived. The resulting demand for capital coincident with widening quality spreads made it quite difficult for financiers to obtain cash at reasonable prices.

As the term "Liquidity Crisis" began to circulate widely, prices for most assets fell significantly. After a more than ten percent correction in stocks, and the near disappearance of Countrywide Financial Corporation, the Fed had seen enough. They came to the rescue with a ½% drop in short rates, which aided the recovery for most areas of investment. Though some of the roller coaster cars made it back safely, many were left behind, as their recovery was far from complete. While most large stocks and U.S. Treasury bonds ended the quarter higher, most mid- and small-cap stocks, as well as lower quality bonds, ended the quarter significantly lower.

According to Morningstar, mid-cap and small-cap stocks were down approximately 1-½% and 3-½% respectively, with the weakest style among Value, Core, and Growth being Value. Value experienced losses of more than 6%.

Contrarian Value Equity Composite Portfolio
Top 10 Holdings
as of 9-30-07

Company Name	Percent of Portfolio
ConocoPhillips Oil Company	6.0%
Coca-Cola Company	5.2
Johnson & Johnson	5.0
Molex, Inc.	4.9
American International Group, Inc.	4.6
Electronic Data Systems Corp.	4.3
Gannett Company	4.3
Marsh & McLennan Companies, Inc.	4.3
BB & T Corporation	4.2
Pfizer, Inc.	3.7

Many have called this a re-pricing of risk, declaring that investors have now adjusted their risk exposure away from the aggressiveness of the last few years. While some adjustment certainly has taken place, it hardly qualifies as a true retrenchment. Quality spreads on risky bonds have only widened back to more normal levels, not the levels one would see when recession is expected. While distressed stocks were down 4.9% for the quarter, Speculative Growth and Aggressive Growth, which might be expected to "re-price" when investors decide to take less risk, actually rose about 7% during the quarter. Though it was a difficult quarter, we were happy to be light on the vulnerable sectors, owning no pure mortgage brokers (i.e. Countrywide, down 51%) or builders (as a group, down 33% for the quarter).

While the world is experiencing significant growth, we remain concerned about the American consumer as tens of billions of dollars worth of mortgages will reset each month over the next several years. Unless interest rates decline significantly, those resets will result in appreciably higher payments. In addition, there remains a considerably growing risk of inflation and further weakness in the dollar to further beset the American economy.

Contrarian Value Equity Composite Portfolio
Fundamentals
as of 9-30-07

	R&W Equity Composite	S&P 500
Number of holdings	29	500
Wtd. Avg. Mkt. Cap. ($B)	89.0	110.3
Price/Earnings Ratio	15.7	19.8
Price/Book Ratio	2.9	3.7
Price/Cash Flow	8.0	9.4
Dividend Yield	2.8%	1.8%
Return on Equity	15.1%	23.3%

We look forward to Wall Street tiring of its obsession with the roller coaster ride. Since 2003, investors have taken more and more risk, continuing to get paid with decent returns. The August correction appears to be a beginning of change. As we all have experienced at an amusement park, once you have ridden a ride several times, much of the fun is lost and it is time to look for a new activity to enjoy. Investors seem to demonstrate similar behavior over time. With limited attention spans and the ever-present feeling that "the grass is greener on the other side," investors eventually seek new ideas.

Stocks appear to be priced near fair value by our measures. Notwithstanding this broader view of the companies we follow, we continue to find individual issues which represent exceptional values. This has been a year when some of those investments are taking a little more time to return to higher prices.

Patience will be rewarded as these companies' fundamentals continue to improve, creating larger levels of earnings and cash flow. As these stocks find their way back into Wall Street's favor, investors will begin anew to seek out those same companies they so recently ignored. Long ago, we learned that we never know when the tide of investor sentiment reverses, only that it will.

This newsletter is furnished only for informational purposes and does not constitute an offer or solicitation to sell or buy securities mentioned herein. Although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed. Opinions expressed herein are subject to change without notice. Past performance cannot guarantee comparable future results.

Robinson & Wilkes is an independent investment management firm, not affiliated with any parent organization. Founded in 1997, Robinson & Wilkes is registered with the SEC and serves both individual and institutional clients.

Robinson & Wilkes claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of our composites and/or a presentation that adheres to GIPS, call (210) 490-2545, email contact@robinsonwilkes.com, or go to our web site at www.robinsonwilkes.com.