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The recession will end, jobs will be created, home prices will stabilize and the capital markets will recover. But when? It would be nice to pinpoint precisely when we can expect the pain to go away, yet economists are notoriously inept at such predictions. However, the exact date of the upturn is probably of little consequence to most investment time horizons, as portfolios are generally built to provide for financial objectives spanning many years and often decades. The challenge of a lengthy bear market is retaining confidence that the agonizing mess of recent months will eventually give way to more upbeat conditions. Investors might take heart in how quickly and dramatically consumers have changed their behavior, because it demonstrates the power of each person's motivation in our economic system.

One of the earliest discoveries in the field of social psychology was made by French professor and agricultural engineer Maximilien Ringelmann in 1913. In a provocative study, which became known as the "*Ringelmann Effect*," it was observed that the average performance of members in a group declined as the number of group members increased. People simply did not work as hard when they thought others in the group would take up the slack. Professor Ringelmann had people pull on a rope, measuring each person's pulling strength. Then, he had them pull in groups of two, three, and eight people. The group result was considerably less than the sum of the individuals' potential. The two-person groups functioned at 93 percent of their potential, three-person groups at 85 percent and eight-person groups at only 49 percent. These surprising results were confirmed in a follow-up study by A.G. Ingham in 1974. Today, psychologists use the term "*social loafing*" to refer to the phenomenon of individuals within a group contributing less than their full effort because of losses in motivation. Conversely, a system that compels each person to contribute their full potential can make quite a difference in the collective force pulling on the rope.

People respond to incentives, and they often show remarkable perseverance in the face of challenging circumstances. Anyone with doubts about that point only needs to look at Los Angeles traffic during rush hour. Why do people work hard, endure long commutes and take risks to advance their careers? They want to improve their situation. They are pulling on the proverbial rope for themselves, without any expectation that someone else will do it for them. When money is cheap and easily available, people borrow. When debt becomes a problem, people pay it down and build up their savings. If someone loses a job, they search for and, if necessary, retrain themselves for a new occupation. There are some modest financial safety nets in our economy, but it is still the case that it generally takes a lot of individual effort to live well in our society. The vast majority of people are motivated to succeed.

We believe it is only a matter of time until that basic human ambition translates into an upswing in economic activity. People will find a way. That view appears to be shared by other investment managers, as a recent study commissioned by Charles Schwab reveals (please refer to the enclosed page). In January, Schwab hired Koski Research to conduct a survey of 1,240 advisors across the country, including the opinion of West Oak Capital. Among the questions asked were two that seem particularly important to our clients:

1. “How long do you expect the current economic recession to last?” – Most advisors (85 percent) expect the recession to end this year or next year.
2. “How long would you estimate it could take for your clients to recoup the losses in their portfolios?” – Most advisors expect it will take three to five years for portfolio values to recover (90 percent say within five years).

These estimates are in-line with our own point of view that this is a deep and protracted downturn. Even though we are already running long, as recessions go, it could well take some additional months before we see a sustained upswing in economic activity. Also, it seems likely that it will take a few years for stock prices to recover to their previous highs. The 2000-'02 downturn included a technology bust and the terrorist attacks of 9/11/01 that knocked the economy for a loop. Once stocks began their recovery, it took about four years for the S&P 500 Index to climb back to its previous peak level. Today's recession is due to weakness in housing and deteriorating mortgage conditions. In order of magnitude, the losses from this downturn are as significant as the previous routing of stock values, so it seems fair to expect it will take a similar period of time to get back on a positive track. Perhaps not quickly, but virtually all advisors polled expect the markets to fully recover from this recession.

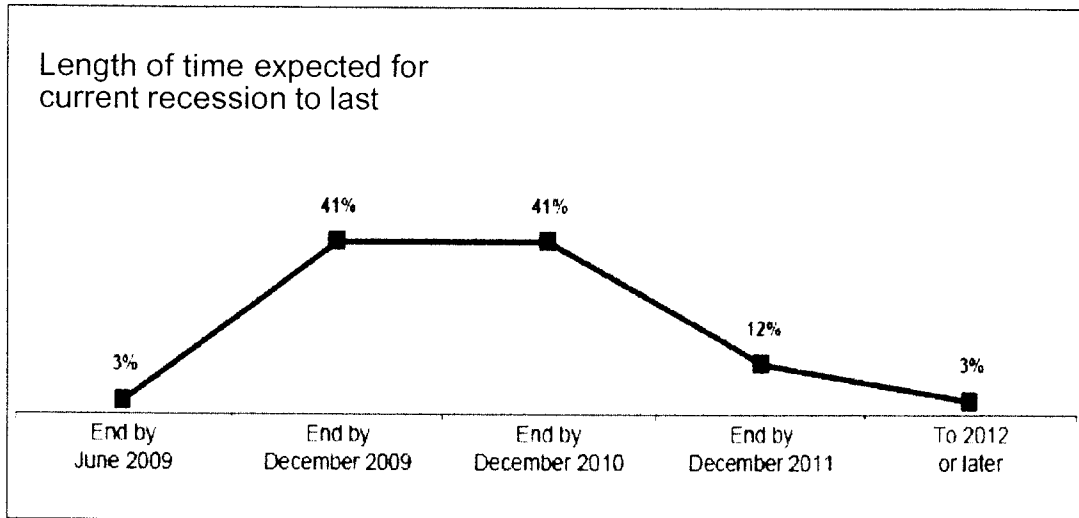
Our nation still promotes meritocracy, in which each person has individual accountability for their own advancement and the well-being of their family. It is a powerful motivator, and one more reason we remain confident that productive efforts will succeed in restoring vitality to our economy.

We appreciate your patience with these difficult capital market conditions, and we welcome your call anytime you have concerns or questions you would like to discuss.

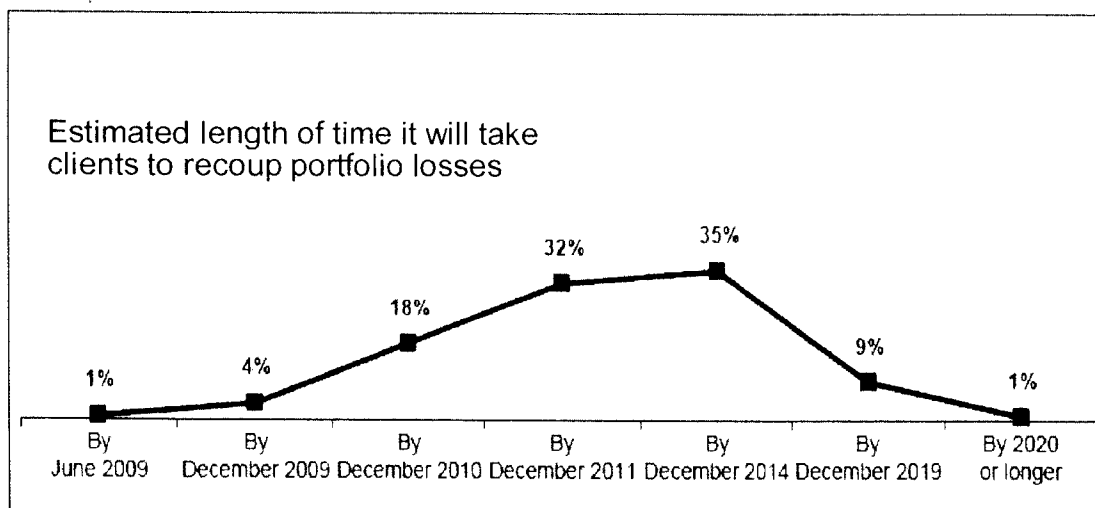
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Advisors are divided about the duration of the current recession, although 85% of advisors expect the recession to end prior to December 2010.



Advisors also are divided on the time it will take clients to recoup market losses. The majority of advisors believe it will take 3-5 years for portfolios to recover from the recent downturn.



Source: Charles Schwab Independent Advisor Outlook Study January 2009. Survey of 1,240 advisors conducted from January 20 to January 30, 2009 by Koski Research for Charles Schwab & Co., Inc.