High Pointe Capital Management, LLC
One North LaSalle, Suite 2001
Chicago, Illinois 60602
312.726.2500
312.726.6100 fax
www.highpointecapital.com

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DATE: July 14, 2008
TO: Clients
FROM: Gautam Dhingra
RE: Second Quarter 2008 Review

Anxious in America

On July 9, 2008, the S&P 500 Index fell to a level that is 20% lower than its previous high reached in October 2007. A 20% decline in stock prices constitutes the well-accepted, though arbitrary, definition of a "bear market". Anxious investors are wondering "what happens next"? A look back through history provides useful clues as described below.

According to a recent report by J.P. Morgan, there have been 30 bear markets in the United States since 1900. The table below summarizes what happened in each of these 30 instances once the -20% threshold was reached.

Date -20% Threshold Reached	Future Performance		
	To Ultimate Low	Next 3 Months	Next 12 Months
Jul 16, 2002	-14%	-7%	+8%
Sep 17, 2001	-18%	+9%	-7%
Oct 11, 1990	0%	+22%	+25%
Oct 19, 1987	0%	+16%	+23%
Feb 22, 1982	-4%	+2%	+35%
Oct 24, 1977	-8%	+1%	+5%
Nov 26, 1973	-30%	+3%	-26%
Dec 8, 1969	-20%	-1%	+2%
Aug 22, 1966	-6%	+2%	+16%
May 28, 1962	-7%	+6%	+25%
Sep 10, 1946	-2%	+5%	+5%
Mar 6, 1942	-9%	0%	+28%
Feb 14, 1941	-21%	-1%	-9%
May 17, 1940	-10%	-1%	-7%
Apr 6, 1939	-11%	+6%	+20%

Date -20% Threshold Reached	Future Performance		
	To Ultimate Low	Next 3 Months	Next 12 Months
Mar 1, 1938	-24%	-17%	+13%
Sep 23, 1937	-36%	-17%	-10%
Jul 26, 1934	0%	+12%	+48%
Oct 19, 1933	0%	+25%	+12%
Oct 24, 1929	-51%	-14%	-35%
Sep 15, 1921	-2%	+25%	+40%
Feb 5, 1920	-32%	-10%	-21%
Feb 2, 1917	-24%	+4%	-11%
Dec 14, 1914	-6%	+25%	+73%
June 5, 1913	-29%	+7%	+8%
Jul 5, 1910	-9%	+2%	+6%
Mar 14, 1907	-30%	4%	-17%
Jul 16, 1903	-22%	-20%	-4%
Jan 14, 1902	-9%	+6%	+5%
Mar 2, 1900	-15%	-5%	+9%
Average	**-15%**	**+1%**	**+9%**

Three facts that can be observed from this data are as follows.

1. Bear markets occur frequently; on average, once every three and a half years, although lately that have occurred less frequently.

2. On average, a 20% decline historically has been followed by additional declines but returns have turned positive within a few months.
3. Two instances when the bear markets have wreaked much havoc beyond the initial 20% decline occurred during the Great Depression and 1973-74. Hence, it seems appropriate to discuss whether the conditions today have any similarity to those during the Great Depression and the 1973-74 time periods.

The biggest similarity to the Great Depression era is that we are coming off the bursting of an asset bubble (housing, in this case) and there is a severe credit crunch underway. Banks are raising their lending standards and curtailing lending in an attempt to reduce their risk exposure. Raising lending standards to prudent levels seems like a good thing but our economy has become so addicted to easy credit that the withdrawal pains are severe.

One big difference this time compared to the Great Depression era is that the Federal Reserve Bank has been more proactive and decisive in its actions whereas in 1929 the central bank stood by and watched things deteriorate from the sidelines. The challenge for the Federal Reserve Bank may be too formidable for it to tackle by itself, and it would not be surprising to see central banks around the world join forces in the near future to ensure the stability of the financial system.

Similarities to the 1973-74 era are obvious on the surface in the form of higher gas and food prices raising the specter of higher inflation. However, overall inflation is being contained by lack of wage growth and, indirectly, by declining home prices as well. Rising gas prices, while painful, have not had the kind of impact on world economies as they did during 1973-74. To keep a sense of humor amidst the pain of rising cost of filling up our gas tanks, we have reproduced below two of the more clever cartoons we have come across in recent days.

One clear positive in the current environment is the continuing growth in the rest of the world, especially emerging markets. The growth in these economies, combined with the weaker dollar, is giving a major boost to export-oriented U.S. companies helping them offset the impact of weakness at home. One threat to the positive growth abroad is the protectionist sentiment being expressed in the U.S., especially in this election year by the democratic nominee for the U.S. presidency. We hope that his sentiments are more rhetoric than policy prescription.

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Investment Returns

The returns of our three main products are summarized below and a discussion of our investment strategy follows in the next section.

High Pointe Capital Management
Investment Performance (Net of Fees)[1]

For Periods Ending June 30, 2008

	2nd Quarter	*Year-to-Date*	*5 Years*	*10 Years*	*Since Inception*[2]
Large Cap Value	0.0%	-12.1%	3.8%	9.2%	9.8%
Russell 1000 Value Index	-5.3%	-13.6%	8.9%	4.9%	5.8%
Large Cap Growth	1.0%	-7.3%	6.1%	N/A	7.8%
Russell 1000 Growth Index	1.3%	-9.1%	7.3%	N/A	-1.3%
Small Cap	0.9%	-9.3%	6.8%	7.9%	8.5%
Russell 2000 Index	0.6%	-9.4%	10.3%	5.5%	5.8%

[1]Performance for the latest quarter is preliminary and subject to change
[2]Inception Dates: Large Cap Value - January 1, 1998; Large Cap Growth – August 1, 1999; Small Cap – January 1, 1998.

Performance results are shown net of management fee, and are based on composites of all fee-paying, fully-discretionary accounts. Returns for the periods presented are time-weighted. Results shown include the reinvestment of dividends, capital gains and other earnings. The currency used to express performance is U.S. dollars. High Pointe's fee schedules are disclosed in Part II of the firm's Form ADV. All fully discretionary, fee-paying accounts have are included in at least one composite, and no accounts have been terminated since the inception of each of the composites. No alterations of the composites as presented in this report have occurred because of changes in personnel or for any other reasons at any time. The composite results portrayed during the period are compared to the performance of their respective indices because the securities purchased for each of the composites are most closely aligned with the securities comprising these indices.

High Pointe Capital Management, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). A complete list of firm composites and performance results is available upon request. The CFA Institute has not been involved with the preparation or review of this report. Returns represent past performance and are not indicative of future results. Investment may result in the loss of principal.

*The unmanaged **Russell 1000 Value Index** measures the performance of those securities in the Russell 1000 Index having lower price-to-book ratios and lower forecasted growth values. The unmanaged **Russell 1000 Growth Index** measures the performance of those securities in the Russell 1000 Index having higher price-to-book ratios and higher forecasted growth values. The unmanaged Russell 1000 Index is comprised of 1,000 of the largest capitalized companies that are traded in the United States.*

*The unmanaged **Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index is comprised of the 3,000 largest U.S. companies based on total market capitalization.*

These indices do not reflect fees and expenses associated with the active management of separate account portfolios.

Investment Strategy

Large Cap Value

High Pointe's Large Cap Value strategy produced a return of 0.0% which was 5.3% ahead of its benchmark, the Russell 1000 Value Index. Relative performance was helped by underweighting of the declining Financials sector and an overweighting of the Technology sector. In addition, security selection with the Energy, Consumer Discretionary, Health Care and Financials sectors was favorable.

During the quarter we made a number of changes to the portfolio. We replaced our lone holding in alcoholic beverages industry as it had reached our price target. We also added a holding each in the energy services industry and the hotel industry. Hotel stocks have declined on concerns regarding the business slowdown in the United States. Our opinion is that companies with significant and growing operations abroad, especially in emerging markets can not only withstand the U.S. downturn but in fact continue to grow.

Towards the end of the quarter, we started adding selectively and modestly to our Financials holdings. We continue to be underweighted in the sector but are looking through the wreckage to spot companies that are above-average in quality but have declined with the rest of the sector.

Large Cap Growth

High Pointe Large Cap Growth strategy produced a return of 1.0% during the last three months, lagging the Russell 1000 Growth Index by 0.3%. Sector selection was positive but its impact was offset by negative security selection. Underweighting the Consumer Staples and overweighting the Technology sector had a beneficial impact on the portfolio. On the other hand, our Industrial and Energy sector stocks did not keep up with their peers.

Our portfolio positioning changed only modestly this quarter. We took advantage of the weakness in for-profit education stocks to initiate a position in this industry. We also added to our holdings in the Energy services sectors and bought a niche company in the data warehousing business

Small Cap

High Pointe's Small Cap strategy produced a return of 0.9% putting it ahead of the benchmark, Russell 2000 Index, by 0.3% for the quarter. The strategy benefitted from its underweighting of the Financials and Health Care sectors. One of our stocks in the Insurance Brokerage industry was acquired by a foreign company at a significant premium. Stock selection in the Consumer Discretionary sector was positive as well. These positives were offset to some extent by negative security selection among Industrials, Materials, and Energy sectors.

We took the downturn in the stock market as an opportunity to upgrade our portfolio by selling our positions in the U.S. oriented airline, title insurance and municipal construction businesses and buying global oriented business in the specialty chemicals, energy services and outsourcing industries.

Increasing our exposure to companies with global, rather than domestic only, aspirations has become a conscious theme of our investment strategy in all products. Our companies, in aggregate, derive about one-third of their revenues from abroad and that share is growing. As the U.S. economy slows down, we believe this positioning will serve us well.