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A LOOK TOWARD 2008

It is always challenging to forecast the year ahead and perhaps even more so against a backdrop of market fear, pessimism, and uncertainty. The precipitous decline in equity values in November set up just such a backdrop. And yet compressed valuations, falling interest rates, and improving future fundamentals make for a very potent investment combination, notwithstanding the emotional response to just seek a safe haven. The close of 2007 may be setting up just such a scenario.

The headline news seems uniformly negative- a sub-prime induced credit crisis yielding a broader credit crunch, leading to a reduction in consumer spending, necessitating a more accommodative Federal Reserve, resulting in a falling dollar. Investors sorting through this muddle have chosen to flee more speculative investments thereby collapsing equity multiples, particularly those of growth companies. But what if a number of growth areas show fundamental improvement in 2008? This would, in our opinion, set up an explosive opportunity for prudent investors willing to assume a measure of risk at a time when the majority of investors seem headed for safety. It is just such an environment that we project for 2008.

A number of factors lead to our constructive view. First, very powerful long term secular trends that have been at work for some time could accelerate in 2008. The most prevalent among these is the emergence of the digital consumer, or said differently, the ability to automate various aspects of the consumer experience. Perhaps the best example of this phenomenon is the powerful impact the Apple iPod has had both on consumers and the music industry. Looking into next year, consumers will be offered a new class of platform, the smart phone, whose accelerated adoption will generate new applications and services while requiring massive infrastructure improvements to provide these enhancements. Second, video as a mainstream data type will only grow in acceptance, whether it's the much improved videoconferencing dubbed telepresence, or the proliferation of You Tube-like video, or the delivery of video to a cell phone, all will require substantial network upgrades. Third, the continuation of the "IP anywhere" theme, which is essentially the intersection of internet access and mobility, will accelerate as the smart phones mentioned above are offered at mainstream price points. Fourth, after a number of years of under-investment in new technologies, corporations will likely increase capital expenditures on select areas that improve productivity and can decrease overall costs. This is already evident with technologies like virtualization that while still nascent in terms of market penetration are growing rapidly in terms of broad-based acceptance and corporate interest.

The Hangar 4 Investment Fly-By is an ad hoc publication intended to give our partners, and prospective partners, some insight into various themes that factor into our investment posture. Hangar 4 Partners LLC is an equity growth manager focused on technology, consumer product, and service companies. Michael P. De Santis and Bruce M. Lupatkin are the portfolio managers. For information regarding Hangar 4 Partners, please contact Michael P. De Santis, mpd@hangar4partners.com or Bruce M. Lupatkin, bml@hangar4partners.com.

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Fifth, emerging economies around the world are likely to follow the historic development pattern found here in the United States of leveraging basic infrastructure with various productivity enhancing technologies. The most obvious examples in this regard are various information technologies and communications technologies. Similarly, as these emerging economies develop, whole new classes of consumers are being created whose appetites for technology-laced consumer products will likely mirror those of consumers in more mature markets. In short, these emerging economies will begin to enter a "build out" phase as it relates to various technologies. Sixth, energy efficiency, and the associated use of various technologies to gain this efficiency, will become much more prevalent in 2008 as costs, geopolitical risks and environmental concerns continue to dominate the headlines.

The US economy may experience some sluggishness to begin the new year, but underlying the headline news will be exciting pockets of strength. This type of environment suggests that stock selectivity will be of paramount importance rather than just overall exposure levels, alpha rather than beta as it as known within the investment trade. We encourage investors, who share our view, to get positioned early for what promises to be an exciting year.

Michael P. DeSantis Bruce M. Lupatkin

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