

Teakwood Wisdom

As one of Teakwood's most valued friends and business partners, we would like to express our appreciation for your partnership with Teakwood. In an effort to continue building our relationship with you, we would like to share our thoughts with a small group of people, including you, on a continuing basis.

We plan to periodically send excerpts from our quarterly letters to our Limited Partners. In addition, we may provide additional insight that we gain through interaction with our business partners, limited partners or portfolio companies. Our goal is to provide something that is valuable to you, yet brief.

Please don't hesitate to give us ideas regarding what would be valuable to you or comments on the information we send to you.

Thank you for your continued partnership,

Teakwood Capital

THOUGHTS FROM Q3 2008:

So much has transpired, it's difficult to know where to begin. The government has bailed out some institutions and not others. It has also put into place a new program to provide liquidity to banks. Many stalwarts of the financial community are gone, have been acquired at deep discounts, or are no longer operating as they were before. Included in this list are Wachovia, Washington Mutual, Lehman Brothers, Merrill Lynch, AIG, Goldman Sachs and Morgan Stanley, just to name a few household names. Many more American institutions are at risk, not the least of which are the big car manufacturers. Crude oil prices have halved. Last, but not least, we have a newly elected President. All are waiting with baited breath to see how Barak Obama tries to help the economy and how his policies might impact individuals and businesses. Many books will be written about this period.

We stand by our convictions that this will be a somewhat messy downturn. Let's compare it to the downturn of the early 2000s. There was the dot com (technology) bust. This was simply a matter of too much of a good thing. The developments of new technology and Internet use were major drivers of increased efficiency and commerce. They were materially over-invested; however, their legacy will continue to benefit the global economy in perpetuity. The terrorist attacks were shocks to the system and froze the world for some time. Our economy climbed out of the prior holes by providing cheap and readily accessible debt to consumers. Now we are experiencing a consumer driven recession in an economy in which GDP is 70% consumer driven. The USA buried the consumer in debt and now deflating assets to get the country out of the previous economic predicament. The resolution to this current predicament seems to be time. The consumer needs time to reduce spending, reduce debt, increase saving and start over, in some cases. This may take a while.

RESPONSES FROM OUR TEAKWOOD WISDOM PROGRAM, IN WHICH TEAKWOOD'S SEASONED BASE OF LIMITED PARTNERS PROVIDES FEEDBACK:

Here is the question asked:

What specific industry or type of company do you feel is the best investment target in this economic environment, and why?

Here are the responses received:

It seems all business is driven by sales and the art and skill of selling seems to be harder to come by these days. I think any organization that is selling products, solutions or services to help their customers achieve sales success is possibly the most valuable vendor to a company. Lead generation, prospect development or a service that helps clients get their prospects through their sales cycle seems like a hit. This could be many different types of companies but their focus is the same.

The next few years will provide real opportunities in picking up companies who have a solid business but have broken covenants with lenders. Whether it is a bank work-out or a purchase prior to work-out, there should be bargains. A prime example of this could be in the hospitality industry. Experts are predicting a huge drop in property valuations, which will trigger debt issues and create a buying opportunity at prices significantly below replacement, particularly for low leverage buyers.

The huge decline in values in financial and real assets will open up opportunities to purchase distressed or discounted assets of various types from real estate (assets and/or notes) to various types of securities that have been driven down in value by fear/panic or simply due to the lack of liquidity in the system rather than the fundamentals of the asset. Companies that can assist in the workout of these displaced assets will also do well.

I feel the companies that deal in infrastructure projects will be the best area to invest. My thesis is based on two assumptions: 1. We are in a long recession and the unemployment numbers will continue to increase 2. Democrats control the Legislative and Executive branches of the Federal government. This country's infrastructure- its highways, bridges, underground pipes, etc. are in need of major repair, and the government will use this infrastructure need as the 'new' New Deal. Fed \$=profits.

There's a whole industry focused on supporting litigation activities. This appears to be impervious to the vagaries of the economy.

Businesses that help other businesses and/or consumers perform necessary tasks more cheaply or efficiently. Everyone is going to be looking to save money during this down economic period. How do you save money for those who must spend money on certain items as a course of every day existence?

*A tie between weasels (varmint farms) and poppy farming (in friendly countries of course) **kidding, i still like blue chip US equities of all sizes, averaging in over months, rationale: the US is the talent magnet of the world and smart people will prevail ultimately.*

Don't laugh! But I would invest in the Oil and Gas business. Even though both natural gas and crude oil commodities have been pummeled lately, it is a commodity that is necessary for the near and potentially long term. People are not willing yet to go to more expensive and less efficient alternative fuels and the day that happens seems to still be far away. Exploration companies, oilfield service companies, and drilling companies have wiped away the majority of any debt they nicely positioned.

I feel all industries are going to suffer in this market. So any people have lost and continue to lose their retirement

money at record paces, which means everyone will have to work longer to make some of the money back. Only the medical and drug companies will stay a float. People always need medical care and prescriptions other things they can cut back on.

Healthcare Related

Am in remote island location of Republic of Tonga -- Looks like palm oil is the wave of the future!!!

I would say that the industries I see doing well in the next year are as follows: Note Sales. Tremendous need for banks to liquidate loans and a real appetite by buyers.

Workout Companies: Kenneth Leventhal thrived in the late 80's in this type of environment: Legal: Watch for a surge in litigation:

Home health Care: Our hospitals are broken. They will keep pushing patients out the door sooner than they need to go.

Alternative Energy: High risk. But watch for solar and wind to continue to grow:

I'm nervous about the feds going after non-bank credit companies that serve low income-one extreme to the other. FASB 157 has written off mortgages and with it some of America's finest companies - AIG, Lehman, Wachovia. The underlying assets are much better than the fire sale prices. Which is why Buffet has swooped in. Regional investment banks should be able to make significant \$\$ off research since so many analysts have wiped out.

I don't like anything O & G related unless it works at \$65 oil. I like small construction companies that have infrastructure projects like Tollway bridges.