COMSTOCK

Investment Opportunities in 2008

Smart Investing Conference Call

Tuesday, January 21, 2008

COMSTOCK

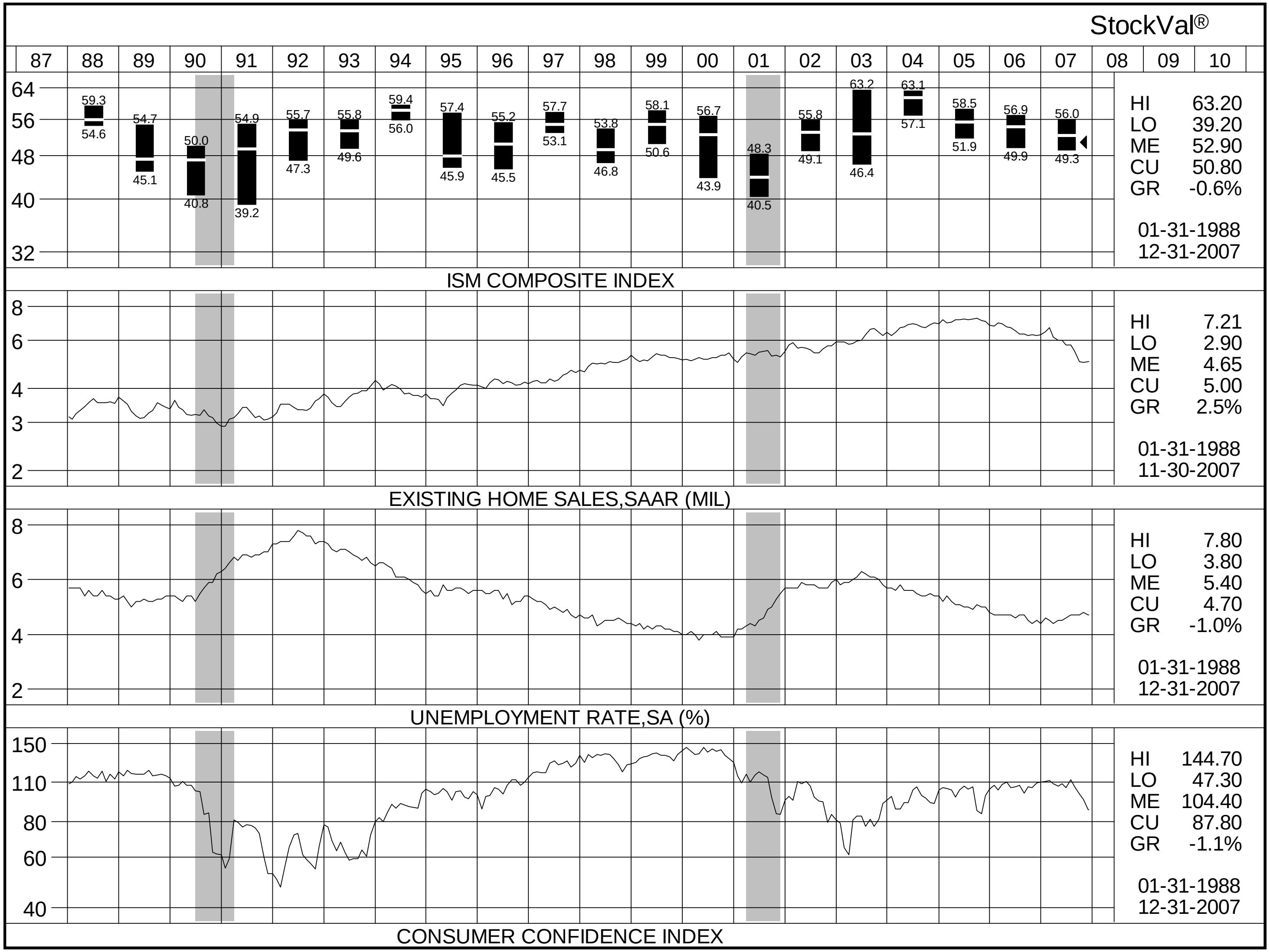
2007 Market Performance

	1 Month	1 Quarter	1 year	3 years	5 years	10 years
MSCI World Index	-1.26%	-2.33%	9.57%	13.30%	17.53%	7.45%
Russell 3000	-0.61%	-3.34%	5.14%	8.89%	13.63%	6.22%
S&P 500 Index	-0.69%	-3.33%	5.49%	8.62%	12.83%	5.91%
Russell 1000 Growth	-0.36%	-0.77%	11.81%	8.68%	12.10%	3.83%
Russell 1000 Value	-0.97%	-5.80%	-0.17%	9.32%	14.63%	7.68%
Russell Midcap	-0.32%	-3.55%	5.60%	11.09%	18.21%	9.91%
Russell Midcap Growth	0.27%	-1.70%	11.43%	11.39%	17.90%	7.59%
Russell Midcap Value	-1.11%	-5.97%	-1.42%	10.11%	17.92%	10.18%
Russell 2000	-0.06%	-4.58%	-1.57%	6.80%	16.25%	7.08%
Russell 2000 Growth	0.63%	-2.10%	7.05%	8.11%	16.50%	4.32%
Russell 2000 Value	-0.85%	-7.28%	-9.78%	5.27%	15.80%	9.06%
MSCI World Ex. US Index	-1.87%	-1.57%	12.91%	17.89%	22.62%	9.38%
MSCI EAFE Index	-2.25%	-1.71%	11.63%	17.32%	22.08%	9.04%
MSCI EMU	-0.84%	2.02%	20.35%	21.87%	26.10%	11.53%
MSCI Europe	-1.75%	-0.43%	14.39%	19.10%	23.33%	9.96%
MSCI Japan	-3.95%	-6.07%	-4.14%	8.59%	15.11%	4.64%
MSCI Pacific ex Japan	-2.23%	-1.52%	31.73%	26.29%	30.85%	14.07%
MSCI EMF (Emerging Markets Free)	0.36%	3.66%	39.78%	35.60%	37.46%	14.53%
Lehman Aggregate Bond Index	0.28%	3.00%	6.96%	4.56%	4.42%	5.97%
Lehman Municipal Bond Index	0.28%	1.38%	3.37%	3.91%	4.30%	5.18%
Merrill Lynch High Yield	0.30%	-1.14%	2.17%	5.46%	10.57%	5.80%
Citigroup 3-month T-bill	0.31%	0.99%	4.74%	4.16%	2.95%	3.62%

(not annualized if less than 1 year)

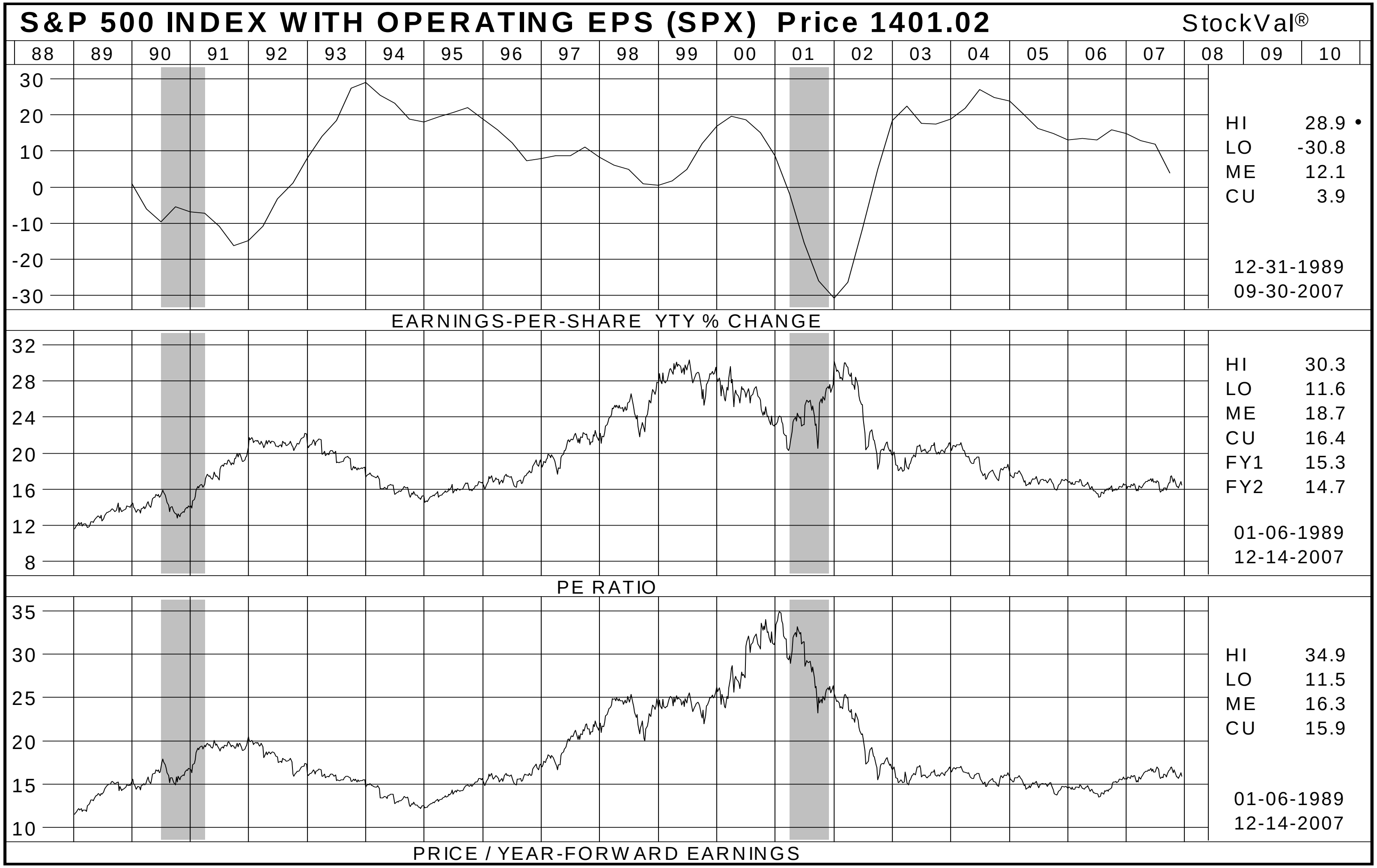
As of 12/31/2007

The US Economy is Slowing



Valuations are Reasonable, although Earnings may be at Risk

COMSTOCK



COMSTOCK

Recessionary Risks in 2008

- Current slowdown may or may not meet the criteria for a recession
  - No one will know until after the downturn has passed
  - Little difference in effect between a mild recession and a slowdown
  - This scenario is already priced into most US stocks
- A scenario where the US slowdown is severe enough to derail the current record level of global economic growth is not priced into stocks
  - Would place international stocks, particularly those in emerging markets at risk for a significant correction if economic weakness spreads outside the US
    - The MSCI Emerging Market index currently trades at over 21 times earnings
    - Over half the index is in the cyclical sectors of Materials, Energy and Finance
      - Sectors which in the US trade at discounts to the market due to their volatility of earnings
  - The consensus view appears to be that the growth cycle caused by the expansion of the BRIC countries (Brazil, Russia, India & China) will continue for years at its current rate
- The long term growth potential stemming from the liberalization of the economic conditions for over 40% of the world's population is compelling
  - No guarantee that there will not be significant pitfalls and volatility

COMSTOCK

Loss Estimates from the Credit Crunch have Risen

- The value indexes in 2007 bore the brunt of the 20.8% decline in the Financial Services sector
- Estimates of losses from the credit downturn are reaching $500 billion
  - well above the $75 billion estimates of the summer
  - increased estimates are largely due to an expansion of losses beyond subprime mortgages and the layers of derivatives that in enlarged the pool of assets

COMSTOCK

Chasing 2007's Growth Stars may be Risky

- The bulk of 2007's gains were in a handful of growth stocks like Google and Apple
- While it is relatively easy at this point to look at 2007 as a reversal of the prior 5 year bull market for value stocks, the high recession risk makes it more difficult to translate that into an easy bet on growth stocks
- Apple and Google are at their core discretionary consumer products companies
  - Scenarios can be envisioned where cash-strapped consumers forego buying a new iPod or where online advertising rates are pressured by a poor general economic environment
  - With Apple and Google trading at 45 and 50 times earnings, respectively, the penalty for disappointing earnings growth will be high
- Without the expansion necessary to support aggressive growth stocks high quality defensive names would be the best option
  - In both the US and international markets, high quality low beta stocks trade at significant discounts to the rest of the market
  - While this has been the case for a number of years and these stocks have significantly underperformed
  - The cyclical tailwind that propped up lower quality names has reversed direction
  - Involves risking underperformance of benchmarks rather than significant losses

COMSTOCK

Economic Forecasting is Unreliable

- Analyzing current economic conditions and important macroeconomic variables is a useful exercise
- Making predictions based upon the interactions of these conditions and variables is an impossible endeavor
- The problem is that it is not possible to correctly estimate the proper weightings and interactions of these variables

US Subprime Implosion

↓ ?

Change in US Consumer Spending

↓ ?

Demand for Chinese Exports

↓ ?

Effect on Chinese Economy

↓ ?

Change in Demand for Commodities

Even simple causal chains like this are unpredictable, there is no reliable way to measure and calculate the impact of one link on another and there are tens if not hundreds of additional variables that impact the analysis

Economic Analysis is Useful in Certain Areas

- Attention should be paid to how securities are pricing in the likely range of potential outcome
  - It is always easier to win when the likely negative outcomes are already reflected in the price paid for the investment
  - Contrarily, when an investment is priced such that nothing short of perfection will deliver an acceptable level of return then caution is warranted
- High quality continues to offer a superior risk / reward combination
- Mathematically, if one has a ρ chance of winning a bet then 2ρ -1 is the maximum percentage of one's total capital that should be wagered
  - i.e. if one could forecast the economy with 60% accuracy then a maximum of 20% of the portfolio should be allocated to reflect this view
  - Macroeconomic bets are infrequent, so it is difficult to put large numbers to work
  - Managers can make dozens of stock selection "bets" each year, but only a few macro bets
  - Assumes symmetric payoffs and the ability to quantify odds ex ante, neither of which is realistic