



## **First Quarter 2007 Letter To Investors:**

**January – March 2007: Hurley composite rises 5.8% net of fees vs. 0.6% for S&P 500**

### **Performance Review**

Over the first three months of 2007, a composite of accounts managed by Hurley Capital rose 5.8% net of fees, as compared to the S&P 500, which rose 0.6%. Individual stock selection as well as selected sector exposures drove client returns. Our investment theses described in past investor letters began to play out in some stocks, while our continued commitment to energy stocks and avoidance of anything to do with housing (homebuilders, banks, mortgage finance, etc.) also boosted first quarter returns. During the first quarter of 2007, the largest winners were Jacada Corp. (see our [4<sup>th</sup> Quarter 2006 Letter To Investors](#)), Discovery Holdings (see our [3<sup>rd</sup> Quarter 2006 Letter To Investors](#)), and Catalina Marketing (see our [1<sup>st</sup> Quarter 2006 Letter To Investors](#)), while SK Telecom and Dell were the largest decliners.

*“We are big fans of fear, and in investing it is clearly better to be scared than sorry.”*

– Seth Klarman, Managing Member, Baupost Group

### **Value Investing Concept: Defensive Investing**

Defensive investing calls for choosing investments that should outperform in difficult market environments. Typically, we've implemented defensive investing strategy by investing in companies with relatively low valuations whose outperformance does not rely on a strong economic backdrop. For example, Wal\*Mart should outperform if consumer spending constraints encourage price-conscious shopping and if the company follows through on its promise to restrain domestic store growth. With a recent investment in Annaly Capital Management, we've chosen a company who should perform best in difficult markets.

### **A Recent Investment: Annaly Capital Management**

Annaly Capital Management's (NLY, \$15.50 on 4/2/07) primary business is investing in AAA-rated mortgage products using company capital and liberal doses of debt, typically 9-10 times what they put up themselves. Since Annaly borrows the money in the short-term market and buys long-term mortgages, Annaly stands to do well if short-term interest rates (i.e. borrowing costs) decline. Short term interest rates are most likely to decline in a weakening economy. Furthermore, amortization risk, a typical risk for AAA-rated mortgage investors in a falling long-term interest rate environment, is at its lowest level in many years. The recent rise in sub-prime mortgage delinquencies may be inspiring a 'flight to safety' in the mortgage investment market towards the AAA-rated products in which Annaly invests.

### **In Closing**

We continue to believe that client accounts, and our own money invested alongside them, are well positioned for solid returns at below market risk levels. We reiterate our goal to provide clients with positive returns at below market risk regardless of market conditions and target annual returns of 8-10%. We pledge to continue investing your capital in a conservative fashion by pursuing value-oriented investments that offer attractive upside potential.

**Performance of Hurley Capital Investments**

	<u>Action</u>	<u>Initial Investment</u>		<u>Name</u>	<u>Total Return to</u>		<u>Transaction</u>	
		<u>Date</u>	<u>Symbol</u>		<u>Date*</u>	<u>Price</u>		<u>3/30/2007</u>
<b><u>2007 Transactions</u></b>								
hedge	Bought	16-Feb-07	NLY	Annaly Capital Management	11.0%	13.94	15.48	
	Sold Call	27-Mar-07	CNQDK	Cdn Nat Resources Call \$55 Apr-07	-56.5%	1.10	1.60	

**2006 Transactions**

Bought	30-Nov-06	CNQ	Canadian Natural Resources	1.4%	54.33	55.19
Bought	28-Sep-06	DISCA	Discovery Holdings 'A'	32.7%	14.40	19.13
Bought	12-May-06	DELL	Dell Inc.	-4.5%	24.33	23.21
Bought	28-Apr-06	DMCX	Datamirror Corp.	71.2%	8.98	15.40
Bought	16-Mar-06	POS	Catalina Marketing Corp	31.6%	23.23	37.13
Bought	21-Feb-06	JCDA	Jacada Ltd	23.0%	2.56	3.15
Bought	14-Feb-06	CHK	Chesapeake Energy	9.8%	28.38	30.88
Bought	04-Jan-06	NWSA	News Corp Ltd CI A	50.6%	15.37	23.12

**2005 Transactions**

sold 1/11/07	Bought	27-Dec-05	NXR	Nuveen Select Tax Free	10.7%	13.19	14.01
	Bought	12-Dec-05	COST	Costco	12.0%	48.60	53.84
	Bought	28-Nov-05	CHRZ	Computer Horizons Inc.	10.7%	4.03	4.49
	Bought	03-Oct-05	WMT	Wal-Mart	8.3%	44.03	46.95
	Bought	17-Aug-05	MMP	Magellan Midstream Partners LP	58.3%	31.70	46.80
sold 1/19/07	Bought	22-Jul-05	SKM	SK Telecom Ltd ADR	18.3%	20.65	23.42
	Bought	23-Jun-05	TPP	Teppco Partners LP	21.8%	41.06	44.40
	Bought	27-May-05	GXM	General Motors Pfd "A"	14.1%	23.65	25.32
	Bought	18-Apr-05	KO	Coca-Cola	22.5%	40.87	48.00

**2004 Transactions**

Bought	28-Oct-04	VHT	Vanguard Heath Care VIPERs	26.6%	46.56	57.81
Bought	06-Oct-04	EEQ	Enbridge Energy Mgt LLC	45.1%	44.95	54.01

\*Total returns include transaction fees, dividends, interest and trading proceeds

\*\* Final transaction price indicated for closed transactions

**Important Disclosure**

The Hurley Capital Managed Accounts Composite represents all actual client accounts invested in this strategy for the entire year. The Hurley Capital Managed Accounts Composite allocates client portfolios in equity and fixed income investments, weighted according to Hurley Capital's proprietary investment strategy.

Actual client accounts utilizing the Hurley Capital Managed Accounts Composite may have varying allocations between equities and fixed income investments based on individual investment preferences. The results of the Hurley Capital Managed Accounts Composite are net-of-fees, brokerage commissions, and other expenses. Hurley Capital's investment advisory fees are described in the disclosure statement of Part II of the Form ADV which is available upon request.

The results of the Hurley Capital Managed Accounts Composite include the reinvestment of dividends. Comparison of the Hurley Capital Managed Accounts Composite to the S&P 500 and NASDAQ Composite is for illustrative purposes only and the volatility of the indices used for comparison may be materially different from the volatility of the Hurley Capital Managed Accounts Composite due to varying degrees of diversification and/or other factors.

Past performance of the Hurley Capital Managed Accounts Composite may not be indicative of future results and the performance of a specific individual client account may vary substantially from the composite results above in part because client accounts may be allocated among several portfolios. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable.