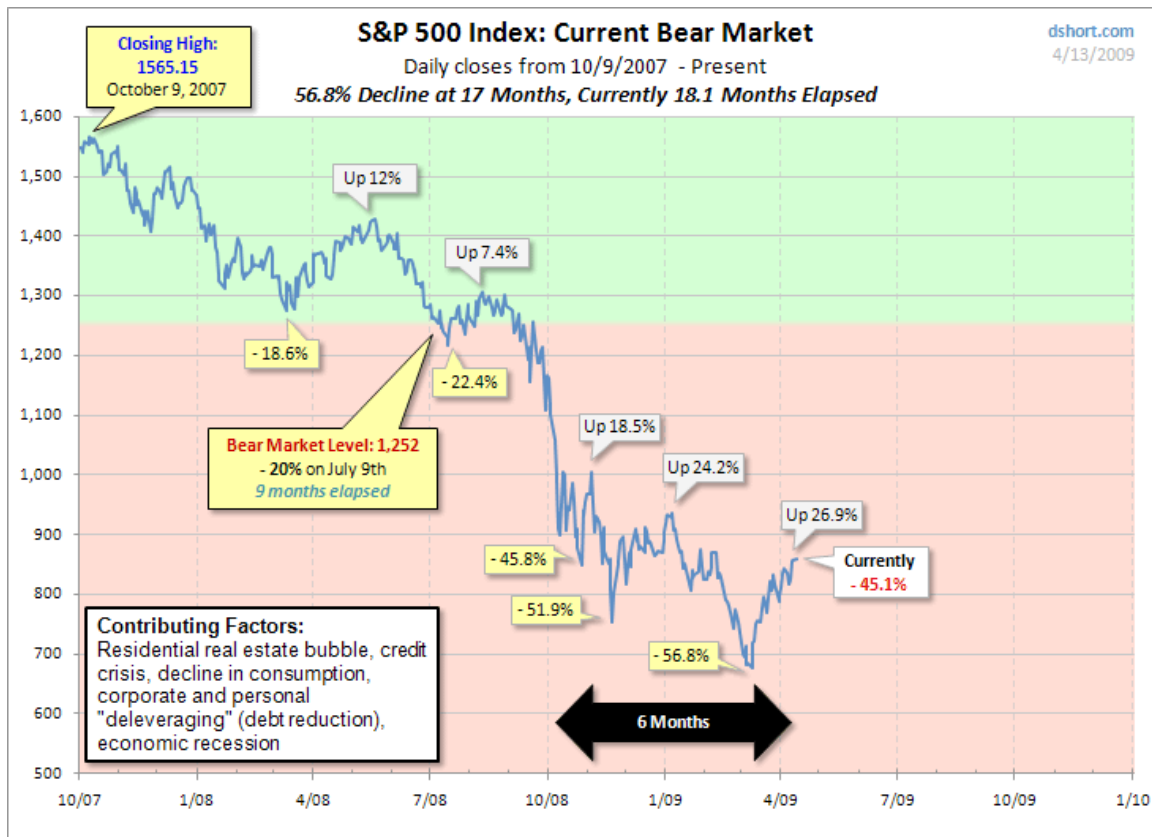


Wedgewood View. 1st Quarter 2009

The Great Test: Reminiscences On The Great Bear Market

There was also great excess in highly leveraged speculation of all kinds. Perhaps real estate speculation did the most damage. But the new trading in derivative contracts involving corporate bonds took the prize. This system, in which completely unrelated entities bet trillions with virtually no regulation, created two things: a gambling facility that mimicked the 1920s "bucket shops" wherein bookie-customer types could bet on security prices, instead of horse races, with almost no one owning any securities, and, second, a large group of entities that had an intense desire that certain companies should fail. Croupier types pushed this system, assisted by academics who should have known better. Unfortunately, they convinced regulators that denizens of our financial system would use the new speculative opportunities without causing more harm than benefit.

Charles T. Munger, Vice-Chairman Berkshire Hathaway
February 2009



The Great 2007-2009 Bear Market may be over (we believe it is), but we will only know for certain in hindsight. But the Great Test has not concluded. This Great Test – call it The Great Career examination, if you will - continues. We at Wedgewood Partners have been tested. All on Wall Street have been tested.

As investors (and investment managers) try to cope - much less comprehend - with a generational worst economy, worst unemployment, worst housing bust, worst corporate earnings bust, worst consumer confidence and worst bear market, elemental questions are being asked:

What happened?

What do I do now?

How can I avoid such a disaster in the future?

Can I recover?

In our neck of the Wall Street-woods (investment management), staff and firm alike have been shaken to their investment philosophical and personal psychological cores. We at Wedgewood Partners continue to ask ourselves the same reflective questions.

People, as well as investment management firms, are not unlike steel under intense heat. Do people under considerable stress become weak and brittle, or do they temper and become stronger. Self-examination, if done right, is cleansing and clarifying. Can we admit mistakes? Can we learn from our mistakes? Can we recognize weaknesses in our investment philosophy, investment process and portfolio management? Did we fail to communicate properly to our clients? Can our firm survive? (On the other hand, we must ask ourselves what we may have done right too.)

Much debate has raged on the matter if the U.S. economy is/was on a death-spiral to a Great Depression II. On this debate we have written in these Letters that we believed that a repeat of a 1930's-style Great Depression was not in the cards. But make no mistake about it; elements within banking, housing, retail, automotive and on Wall Street have suffered both monumental and irreversible collapse.

In the investment management business, so great was the bear market that not only was a firm's investment performance questioned, but firm viability was seriously questioned as well. So great (and sudden) was the collapse of assets under management during the Great Bear that firm profitability not only shrank, but also in many cases collapsed. The fee-based investment management business has a long history of being remarkably profitable. Cash returns on firm capital are consistently among the highest of any industry. Furthermore, owners of the majority of private investment firms are typically the key investment personnel as

well. The value of the firm is often the largest asset of the owners. The Great Bear was doubly difficult for not only did investment performance collapse, but firm profits evaporated too. Poignant questions need to be asked. How did these investment managers/firm owners respond during the Great Bear? Have key employees fled for greener pastures? Have staff and resource cuts been too draconian? How is firm morale? Did firm business issues interfere with the investment process? Such questions are on the forefront of clients' minds and are being asked pointedly and without haste to all firms – including ours (as well they should). Since these firm-related questions and issues are on the forefront of many clients' minds we seek to address this matter as directly as possible.

Munger's critique and plea to restore confidence in our financial system (see addendum at the end of this letter) is as sharp an indictment as those proffered from John C. Bogle. Those of you familiar with the books, writings and lectures of John Bogle (founder of the Vanguard Group) know that he has not only been a stern critic of the investment management business, but he has rose to the mantle of the conscience of this industry over his career of 58 years. Bogle's rapier criticism is two-fold. First, he abhors the fact that far too many in this business view it as just that - a *business* and not a *profession*. Second, he is equally critical that the glacial shift within the investment management industry over the decades from an *ownership* society to an *agent* society has been a marked failure as well. In short, Bogle bemoans the hard-to-ignore-reality that as an industry we have failed as stewards of our clients' investment capital. As Bogle argues; our collective fees are too high, our performance is sub-par, growth in assets under management should be a residue of serving the clients' interests first and we should act and behave as true long-term owners in the businesses we invest in as agents for our clients.

The conscience of client stewardship here at Wedgewood Partners is the founder, Tony Guerrerio. The culture of client stewardship is demonstrated daily by Tony. All of us at the firm have learned what client stewardship means directly and indirectly from Tony. This is Tony's 32nd year in this profession (not business). On the distinction and difference of profession versus business, multi-decade actions speak louder than superfluous words. On this score, Tony's track record is rare indeed in this business. Employees of his have reached +20-year tenure. On the client front they have reached even longer – and into second generations. Such accomplishments are not by accident, but by residue of design.

In these tumultuous times, Tony's professionalism of client stewardship and management leadership has served our clients and firm staff remarkably well. We have never been an assets-under-management-marketing-machine, so we have not had to lay off staff. Tony's view is that owner's must absorb the risks of the business first. The three owners have taken salary pay cuts in order to keep staff pay intact. Tony's management culture is one of extreme conservatism. Our firm capital is four-times the regulatory requirement.

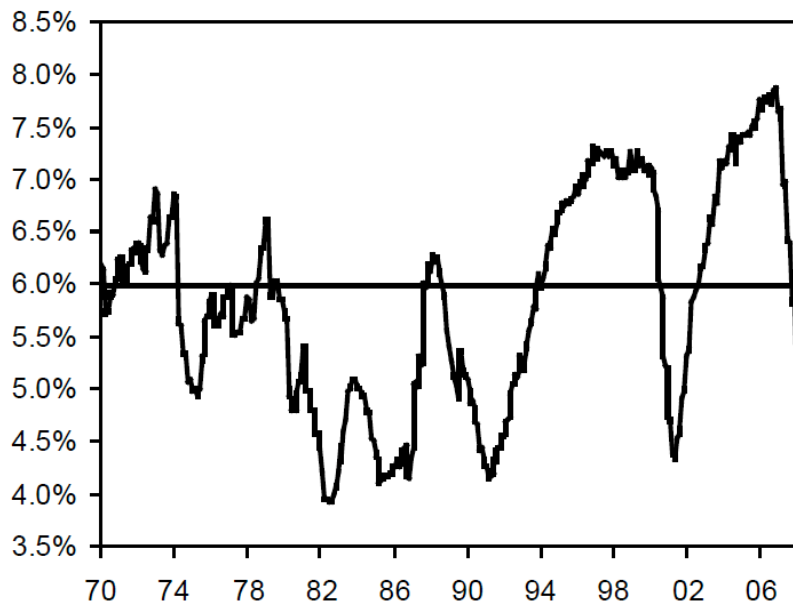
On the investment front, our firm's challenges began during calendar year 2006 and into the first half of 2007. To be frank, our performance was awful. We made our fair share of mistakes in our clients' portfolios, but as "high-quality" growth company investors, we faced unusual investment-style headwinds during the last gasps of the once-in-a-generation credit bubble. In hindsight, we are proud of the fact that we stuck to our investment philosophical moorings. Independence of thought and the ability to invest contrarily are rare qualities in the investment management industry. Behavior and temperament have been tested like no other period in our careers. Such qualities and attributes should be evident in current investment performance. We trust that our investment performance (as this Letter is being written) since the credit-bubble clock first struck midnight at Bear Stearns nearly two years ago is evidence that the firm that Tony has built since 1988 is indeed passing the Great Test.

Performance: 6/30/2007 to 4/13/2009 (Supplemental performance: see page 8.)

Wedgewood Partners Composite (Net): -18.3%
Standard & Poor's 500 Index: -42.9%
Russell 1000 Growth Index: -36.6%
Russell 1000 Value Index: -48.8%

Over the past two years, we have written extensively on the ramifications of the rise and fall of the bubble within the corporate profitability cycle. We are still of the strong opinion that even if we have seen the worst of the current Great Recession, corporate profitability will unlikely return to those heady bubble days of 50-year profit margin highs.

Operating Profit Margin for S&P 500



Source: Compustat, GMO

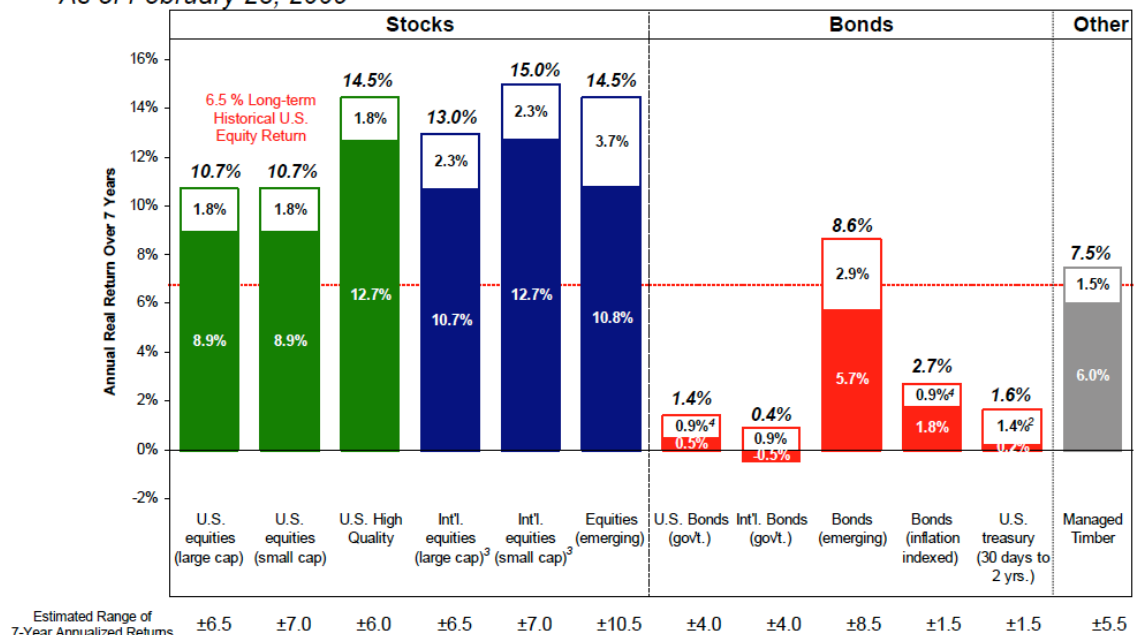
As we have seen over the past few quarters, corporate growth is rare. We expect this condition to be part and parcel of the economic landscape for quite a while – years, not quarters. The pendulum swing away from unbridled free-market capitalism and excessive leverage will rule the economic and corporate landscape for many years.

True growth companies are rare and such companies should be market leaders in the years ahead.

GMO 7-Year Asset Class Return Forecasts*

■ - Expected Value Added
■ - Real Return (Asset Class Index)

As of February 28, 2009



Estimated Range of 7-Year Annualized Returns

*The chart represents real return forecasts¹ for several asset classes and an estimate of value expected to be added from active management. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Actual results may differ materially from the forecasts above.



¹ Long-term inflation assumption: 2.5% per year.

³ Return forecasts for international equities are ex-Japan.

² Alpha transported from management of global equities.

⁴ Alpha transported from management of global bonds.

Source: GMO

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April 2009

David A. Rolfe, CFA
Chief Investment Officer

Dana L. Webb, CFA
Senior Portfolio Manager

Michael X. Quigley, CFA
Portfolio Manager

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The Washington Post

How We Can Restore Confidence

By Charles T. Munger

Wednesday, February 11, 2009

Our situation is dire. Moderate booms and busts are inevitable in free-market capitalism. But a boom-bust cycle as gross as the one that caused our present misery is dangerous, and recurrences should be prevented. The country is understandably depressed -- mired in issues involving fiscal stimulus, which is needed, and improvements in bank strength. A key question: Should we opt for even more pain now to gain a better future? For instance, should we create new controls to stamp out much sin and folly and thus dampen future booms? The answer is yes. Sensible reform cannot avoid causing significant pain, which is worth enduring to gain extra safety and more exemplary conduct. And only when there is strong public revulsion, such as exists today, can legislators minimize the influence of powerful special interests enough to bring about needed revisions in law.

Many contributors to our over-the-top boom, which led to the gross bust, are known. They include insufficient controls over morality and prudence in banks and investment banks; undesirable conduct among investment banks; greatly expanded financial leverage, aided by direct or implied use of government credit; and extreme excess, sometimes amounting to fraud, in the promotion of consumer credit. Unsound accounting was widespread.

There was also great excess in highly leveraged speculation of all kinds. Perhaps real estate speculation did the most damage. But the new trading in derivative contracts involving corporate bonds took the prize. This system, in which completely unrelated entities bet trillions with virtually no regulation, created two things: a gambling facility that mimicked the 1920s "bucket shops" wherein bookie-customer types could bet on security prices, instead of horse races, with almost no one owning any securities, and, second, a large group of entities that had an intense desire that certain companies should fail. Croupier types pushed this system, assisted by academics who should have known better. Unfortunately, they convinced regulators that denizens of our financial system would use the new speculative opportunities without causing more harm than benefit.

Considering the huge profit potential of these activities, it may seem unlikely that any important opposition to reform would come from parties other than conventional, moneyed special interests. But many in academia, too, will resist. It is important that reform plans mix moral and accounting concepts with traditional economic concepts. Many economists take fierce pride in opposing that sort of mixed reasoning. But what these economists like to think about is functionally intertwined, in complex ways, with what they don't like to think about. Those who resist the wider thinking are acting as engineers would if they rounded pi from 3.14 to an even 3 to simplify their calculations. The result is a kind of willful ignorance that fails to understand much that is important.

Moreover, rationality in the current situation requires even more stretch in economic thinking. Public deliberations should include not only private morality and accounting issues but also issues of public morality, particularly with regard to taxation. The United States has long run

large, concurrent trade and fiscal deficits while, to its own great advantage, issuing the main reserve currency of a deeply troubled and deeply interdependent world. That world now faces new risks from an expanding group of nations possessing nuclear weapons. And so the United States may now have a duty similar to the one that, in the danger that followed World War II, caused the Marshall Plan to be approved in a bipartisan consensus and rebuild a devastated Europe.

The consensus was grounded in Secretary of State George Marshall's concept of moral duty, supplemented by prudential considerations. The modern form of this duty would demand at least some increase in conventional taxes or the imposition of some new consumption taxes. In so doing, the needed and cheering economic message, "We will do what it takes," would get a corollary: "and without unacceptably devaluing our money." Surely the more complex message is more responsible, considering that, first, our practices of running twin deficits depend on drawing from reserves of trust that are not infinite and, second, the message of the corollary would not be widely believed unless it was accompanied by some new taxes. Moreover, increasing taxes in some instances might easily gain bipartisan approval. Surely both political parties can now join in taxing the "carry" part of the compensation of hedge fund managers as if it was more constructively earned in, say, cab driving.

Much has been said and written recently about bipartisanship, and success in a bipartisan approach might provide great advantage here. Indeed, it is conceivable that, if legislation were adopted in a bipartisan way, instead of as a consequence of partisan hatred, the solutions that curbed excess and improved safeguards in our financial system could reduce national pain instead of increasing it. After the failure of so much that was assumed, the public needs a restoration of confidence. And the surest way to gain the confidence of others is to deserve the confidence of others, as Marshall did when he helped cause passage of some of the best legislation ever enacted.

Creating in a bipartisan manner a legislative package that covers many subjects will be difficult. As they work together in the coming weeks, officials might want to consider a precedent that helped establish our republic. The deliberative rules of the Constitutional Convention of 1787 worked wonders in fruitful compromise and eventually produced the U.S. Constitution. With no Marshall figure, trusted by all, amid today's legislators, perhaps the Founding Fathers can once more serve us.

The writer, a Republican, is vice chairman of Berkshire Hathaway Inc., which owns 21 percent of The Washington Post Co.'s common stock.

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WEDGEWOOD PARTNERS, INC.
EQUITY COMPOSITE
ANNUAL DISCLOSURE PRESENTATION
PAGE ONE OF TWO

Year End	Total Firm Assets (millions)	Composite Assets		Annual Performance Results			
		U.S. Dollars (millions)	Number of Accounts	Composite Net	S&P 500	Russell 1000 Growth	Composite Dispersion
2008	359	202	440	(38.12%)	(37.00%)	(38.44%)	1.3%
2007	547	367	509	15.04%	5.49%	11.81%	1.4%
2006	620	334	571	(2.77%)	15.80%	9.08%	1.2%
2005	451	252	320	5.84%	4.91%	5.26%	1.3%
2004	298	176	190	9.61%	10.87%	6.30%	2.5%
2003	226	123	134	42.25%	28.68%	29.75%	5.8%
2002	154	93	130	(20.42%)	(22.10%)	(27.89%)	2.6%
2001	202	117	129	(7.72%)	(11.88%)	(20.42%)	2.5%
2000	217	129	112	(10.31%)	(9.11%)	(22.42%)	5.1%
1999	200	120	78	56.99%	21.04%	33.16%	10.0%
1998	100	50	51	49.60%	28.58%	38.71%	6.4%
1997	58	21	32	21.10%	33.36%	30.49%	5.6%
1996	44	11	23	23.57%	22.96%	23.12%	5.0%
1995	33	3	9	42.59%	37.58%	37.19%	4.9%
1994	24	<1	Five or fewer	3.78%	1.32%	2.66%	N.A.
1993	20	<1	Five or fewer	(6.21%)	10.08%	2.90%	N.A.
1992	16	<1	Five or fewer				

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

***Equity Composite** contains fully discretionary taxable and non-taxable growth equity accounts. For comparison purposes, the composite is measured against the S&P 500 and Russell 1000 Growth indices. The minimum account size for this composite is \$65 thousand.*

Wedgewood Partners, Inc. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Wedgewood Partners, Inc. is an independent registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Some accounts in the composite may pay an all-inclusive wrap fee based on a percentage of assets under management; these accounts are reduced by all actual fees and transaction costs incurred. Other than brokerage commissions, this fee includes investment management, portfolio monitoring, consulting services, and in some cases, custodial services. Wrap accounts represent approximately 18% of the composite's assets as of December 31, 2008, 13% of the composite's assets as of December 31, 2007, and approximately 18% of the composite's assets as of December 31, 2006. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding policies for calculating and reporting returns is available upon request.

WEDGEWOOD PARTNERS, INC.
EQUITY COMPOSITE
ANNUAL DISCLOSURE PRESENTATION
PAGE TWO OF TWO

The management fee schedule is as follows: 1.50% under \$1 million; 1.25% for \$1 million to \$2.5 million; 1.00% for \$2.5 to \$5 million; and 0.75% over \$5 million. Actual investment advisory fees incurred by clients may vary.

Carve-outs are included in this composite and performance reflects total segment plus cash returns using an actual pro rata allocation. Prior to May 1, 2004, performance reflected total segment plus cash returns using a beginning of period allocation and a fixed total of 5% cash. As of December 31, 2008, December 31, 2007, and December 31, 2006, approximately 1.15%, 1%, & 3% of the composite's assets were comprised of carve-out segments.

The Equity Composite was created in 2002. Wedgewood Partners, Inc.'s compliance with the GIPS standards has been verified for the period October 1, 1992 through December 31, 2008 by Ashland Partners & Company LLP. A copy of the verification report is available upon request.