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Dear Investor:

Saddle Peak's first quarter results were disappointing as a result of our position in Bear Stearns. We believe that although the long term value of Bear Stearns was not impaired, market forces caused a liquidity run that culminated in the Company's demise. Without the Federal Reserve implementing liquidity measures post Bear Stearns, other brokerage companies could have experienced severe pressure also. Nonetheless, a loss is a loss, and our mistake was in underestimating the liquidity event. Without the Bear Stearns loss, Saddle Peak easily outpaced the S&P 500 for the quarter, an indication that both the portfolio and our strategy are healthy.

For several quarters now, investors have enjoyed terrific returns from commodity-related stocks. We believe that the pendulum should ultimately start to swing the other way and that the broad spectrum of companies that we are invested in should benefit. We are also confident that the long term earnings power of our companies is intact despite a difficult economy. This is of utmost importance, because what companies earn over an **extended period of time** will ultimately dictate stock performance.

The market is dominated by commodity stocks and the persistent rhetoric of emerging countries' insatiable demand for energy and everything else. Inflation is a real problem, particularly in some of these emerging countries. In China, the economy and the stock market are both heavily subsidized by the Chinese government. As an example, China Petroleum and Chemical (Sinopec) recently announced earnings. If you deduct the subsidy to the refining portion of their business, Sinopec actually lost money. Without that subsidy and the artificially low gas prices, China's stated inflation of 8.5% would be even higher.

The stock market rebounded from its February lows with a vengeance and investors are poised to see if the bull market will roar back. To be perfectly clear, we are not chasing commodity stocks or emerging markets. For the market to continue its rise, it will need to negotiate through some difficult issues.

First, commodity inflation is high and sooner or later the world's central bankers may need to pull the plug on the very benign monetary policy that has dominated the global economies for a very long time. Ben Bernanke may not have a lot of wiggle room left given the plummeting dollar and the upward trajectory of commodity prices. Central bankers may soon be raising rates.

Second, the American consumer is taking a bruising with the housing market's decline, and both higher gas and food prices. Although many are suggesting that the world's economies are resilient enough to withstand a significant U.S. recession, we are skeptical.

Finally, although many in the market have declared a bottom for the financial sector, one should question whether the sector has been tested in a truly difficult economy. What happens if we really do go into a deep recession?

In essence we do not believe we have the all-clear signal yet. In the midst of this market's resurgence, we have raised cash levels, particularly in energy. Again, we don't think owning commodities when everyone loves them after an extended run is a prudent decision.

Cymer is the portfolio's largest position. Cymer manufactures the light lasers used to pattern the circuitry on semiconductors. The constant shrinking of geometric dimensions in the circuitry, and nanotechnology in general is an enormous opportunity for the Company.

Our ten largest positions including Cymer are Amgen, Helen of Troy, Altria, Starbucks, Manpower, American Express, Speedway Motorsports, Time Warner and Mercury General. Positions sold recently include Nabors Industries and BJ Services.

Our cash levels are at the highest of the year, and yet the portfolio is performing well in comparison to the market. Our investors should benefit in the event of a commodities correction. We believe that if there is a stock market pullback, there will be excellent opportunities to invest that cash.

Thank you for your continued support of Saddle Peak.

Sincerely,

Saddle Peak Asset Management, LLC

Doug Grey
Partner

Our views and opinions regarding the investment prospects of our portfolio include "forward looking statements" which may or may not be accurate over the long term. While we believe we have a reasonable basis for our views and opinions, actual results may differ materially from those we anticipate. The information provided in this report should not be considered a recommendation to buy, sell, or hold any particular security.