
J.L. BAINBRIDGE

& COMPANY, INC.

◆PROFESSIONAL MONEY MANAGEMENT◆

2008 ANNUAL REPORT

INVESTMENT RESULTS

For 2008 J. L. Bainbridge & Company, Inc. experienced a -36.7% rate of return on all monies managed in its equity investment program. In conjunction with returns in its equity program for 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006 and 2007 returns of 10.2%, 38.4%, 20.3%, 23.2%, 29.9%, 5.6%, 16.9%, -3.2%, -8.5%, 13.8%, 14.6%, 5.1%, 13.3% and 3.8% respectively, a January 1, 1994 investment of \$250,000 has grown to a December 31, 2008 value of \$818,583. This equates to an increase of 227% over the past fifteen years or 8.2% compounded annually. These results assume reinvestment of dividends and are after transaction costs and our management fee.

INVESTMENT REVIEW

Our 2008 results were slightly better than the return of -37% for the S&P 500, and were disappointing because our expectation is our portfolio of extraordinary companies should outperform this index by a wider margin as has been the case over the past fifteen, ten and five year periods. Clearly our results were impacted by the turmoil in the credit markets and were exacerbated by the recession. These concurrent events led to the most devastating and

indiscriminant stock market decline we have seen in the twenty-seven years we have been in business. Thus for the first time our portfolio, which in the past has been resistant to panic selling, capitulated.

Consequently because earnings for the companies in our portfolio have remained strong, the evaluation of our investments declined to the lowest price-to-earnings (PE) ratio in our history by a very wide margin. Recognizably this does not provide clients with much comfort from last year's decline, but it does provide an opportunity for a powerful recovery this year and a long period of years with returns of at least fifteen percent compounded annually. Be assured we will adhere to the proven investment policy of owning companies with long records of earnings and dividend growth coupled with strong financial positions and significant excess cash flow. These are the companies that over time provide investment returns that exceed the growth in both the economy and the stock market while also protecting against the permanent loss of investment dollars. On the contrary an example of permanently losing hard earned investment dollars is the collapse of Wachovia; a bank that prior to last year was highly respected and one of the largest in the country.

INVESTMENT STRATEGY

Over the past ten years, investors' appetite for speculation has been insatiable. Starting with the technology/Internet bubble in 1999 and followed by the emerging market, housing and commodity bubbles, investors have been buffeted by the associated euphoric rise in prices and the ensuing fall. While the bursting of all of these bubbles had some effect on the economy, the drop in housing has impacted both the credit and stock markets and driven the economy into a recession. The idea home prices could not decline caused both investors and home buyers to assume more debt than was sustainable, and is to this day bringing about loan defaults and declining retail sales. While the doom and gloom media sees no end in sight, the massive fiscal and monetary stimulus, including cutting interest rates to unprecedented levels, will bring recovery. However for investors, long lasting changes in the economy will occur. For example, consumer spending, which was driven by escalating home values and the ease to refinance a mortgage and/or open an equity line of credit, will not recover significantly for years. Add to this the fact retailers reacted to high consumer demand by opening too many stores, means investing in retail companies should be avoided. Thus early last year we sold our retail holdings.

Although the overall economy will recover, the financial news will continue to be bleak for at least the next six months. Hence the question today is; how can the stock market advance in a weak economy? The answers are:

- First, markets rise based on the collective perception as to what the future holds. Hence the tremendous stimulus packages together with the anticipation of a new President with new ideas can bring about the feeling things are going to get better.
- Second, stock prices currently reflect an economy far worse than reality.
- Third, the credit markets are responding to the aggressive actions taken by the Federal Reserve as interest rates on corporate debt and home mortgages are falling.
- Last and most importantly, short selling and cash holdings are at record levels, and cash in money market accounts is earning only slightly more than one percent. These factors represent tremendous buying potential to fuel a market advance.

Although in our opinion the market can rally and the likelihood that panic selling will return is greatly diminished, achieving superior results will require identifying those areas that will outperform. In the past ten years speculating was popular which diverted money from consistently growing blue chip companies that were considered to be dull. Going forward high risk speculating should at last be out of favor. This environment should last for years and is very favorable to our conservative investment approach. We also continue to believe future growth will continue to be much greater in international markets and in those industries tied to the major infrastructure projects around the world. Our investments have been selected to take full advantage of these areas of higher growth. However the severity of the economic slowdown will put short-term pressure on their earnings particularly in the first half of 2009. Therefore for the first time we will see companies in our portfolio report a decline in earnings. But this does not mean their stock prices cannot advance robustly because this will be a very short-term situation which will be reversed in the second half of 2009. Also their current stock price reflects an expected earnings decline much worse than will be reported. Furthermore their financial strength and excess cash flow will continue to fund acquisitions, dividend increases and stock repurchase programs that further enhance long-term growth.

CONCLUSION

In summary, the market could post an impressive recovery in 2009, but we are not relying solely on such a recovery to achieve a growth return for clients because not all areas of the economy will do as well as others. Hence regardless of the market, there will likely be wide variation in the appreciation of stock prices from company to company as the economy shifts from less consumer based growth to more exporting of manufactured innovative products required for the expansion of emerging economies around the world. Caterpillar is a company positioned for growth in this environment. In 2008 CAT generated three quarters of its equipment sales outside the United States with a major share exported. Their success is based on a continuous flow of improved products as illustrated by a new bulldozer introduced last year that is twenty percent more fuel efficient and has one fourth fewer moving parts. Thus buyers save on both fuel and maintenance. Their innovation that increases market share together with expanding international demand is a powerful combination. Accordingly while most domestic manufacturing companies are contracting, CAT last week announced a new plant in Arkansas that will begin production of road graders next year. This is just one example of an American company with a strong international business ideally positioned for what we see as the future economy. Other companies with equal prospects in the portfolio include Boeing, Danaher, Emerson Electric, Eaton, General Electric, Goodrich, Lincoln Electric, 3 M, Manitowoc, Precision Cast Parts, Regal- Beloit and United Technologies.

These companies together with traditional growth companies such as American Express, Amdocs, Avon, Disney, Fiserv, Grainger, Henry Schein, Johnson & Johnson, Medtronic, McGraw-Hill, Pepsi, Proctor and Gamble and T Rowe Price position our investment program for excellent results for the next several years. Considering all of these companies together are today selling at a PE ratio of ten versus a historical range of fifteen to eighteen and that future investment dollars should flow into blue-chip companies such as these, our holdings have tremendous potential. With double digit earnings growth combined with an expanding PE ratio, returns would compound at over twenty percent over the next five years. Our total effort will be recovering last year's losses as quickly as possible followed by excellent continued high returns for several years thereafter in order to build clients' financial wherewithal for the future.

It should not be assumed that past results will be achieved in the future or that a loss could not be incurred. Furthermore it should not be assumed that a 15% compounded return will be achieved or that future results will exceed market indexes.

In accordance with SEC regulation, a current copy of our SEC registration form ADV Part II is available upon request free of charge.

ENHANCING CLIENTS' LIVES

At J.L. Bainbridge & Company, Inc. our business is dedicated to “enhancing clients’ lives” by providing long term professional money management service totally focused on helping clients finance their children’s education, build and preserve the resources for an enhanced retirement and achieve a meaningful higher standard of living.

The foundation of J.L. Bainbridge & Company, Inc.’s business philosophy is based on the full understanding that our future and success is completely dependent on client satisfaction and delivering to clients a consistent long term investment service of the highest level of quality, competence and integrity.

Our commitment to “enhancing clients’ lives” is a guiding light that governs our professional daily activities and demands every decision and action be assessed as to exposure to investment risk as well as the long term benefit to clients.

J.L. BAINBRIDGE

& COMPANY, INC.

Managing more than \$200 million for over 800 clients nationwide.
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