

CONTRAVISORY Insights

A Quarterly Investment Perspective

IN THIS ISSUE

THE SUBPRIME CRISIS
- PG. 2 -

NEW HIRE
- PG. 3 -

CONTRAVISORY
EQUITY PORTFOLIO
- PG. 3 -

THE CONTRAVISORY TEAM

G. Edward Noonan,
Chairman
William M. Noonan,
President & CEO
Philip A. Noonan,
Chief Operating Officer
David Canal,
Vice President
David Gately,
Operations Manager
Melody McNeill,
Administrative Assistant
Matthew Sullivan,
Senior Vice President
Francis Boland,
Senior Vice President
Barbara Lewis,
Administrative Assistant

LETTER FROM THE PRESIDENT

A DIZZYING RIDE

As far as prognostications go, our comments last year came as close to the mark as anyone could expect. We said last January “that 2007 will be more difficult to achieve above-average returns.” Well, the S&P 500 gained 5.5%, half the long term average of 11%. Of course no one could have predicted the dizzying ride that we would eventually experience.

At this time last year we could sense a difficult year ahead as storm clouds began to gather over the financial markets. The tightening credit markets were causing significant concern. Already many of the nation’s largest home builders had suffered steep declines and were headed for outright collapse. The Iraq war had intensified and oil began to spike again. Not to mention the continuing decline of the dollar. More importantly, as interest rates rose, the sub-prime mortgage market began to unravel. Ultimately the sub-prime mortgage disaster would be the biggest story roiling the financial markets. (related article on page two)

This strange brew has led to a period of significant uncertainty. We are always dealing with unknowns but the potential magnitude of the sub-prime meltdown has spooked “Wall Street”. This has manifested itself in the collapse of some of the world’s largest financial institutions and a heightened volatility for the overall market. Simply put, the markets do not like uncertainty.

LOOKING AHEAD

It’s important to remember that the equity markets are dealing with future value. What is taking place today is an adjustment of expectations to bring them into line with current realities. These adjustments result in short term market corrections which ultimately lead to a healthier and stronger market.

Though the early going in this New Year has been difficult, there is good reason to be optimistic. Iraq has stabilized for now, oil has settled back from recent highs and the dollar should grab a toe-hold. The Federal Reserve will not sit back and let the dollar collapse and the economy slip into a prolonged recession. Action will be taken.

More importantly, however, the major players in the sub-prime market will eventually show all of their cards. Until then, the markets will likely remain choppy. Once the full magnitude of the problem is known, the markets will quickly digest that information and move on. A good guess would be sometime in the second quarter.



William M. Noonan

William M. Noonan
President & CEO

CONTRAVISORY Insights

THE SUBPRIME CRISIS

The most significant news story of 2007 concerned the subprime mortgage crisis. The subprime mess rocked the equity markets, weighing heavily on the market, most notably impacting the Financial and Consumer Discretionary sectors. Fortunately, Contravisory signaled trouble for these sectors early in 2007 and took action to minimize the subprime impact on client portfolios.

The origin of the subprime crisis centered on lenders issuing “subprime” mortgage loans to higher-risk borrowers with lower income or lesser credit than “prime” borrowers. Lenient lending policies, including promoting adjustable rate, interest only, and no money down financing proved relatively harmless during the advance in housing prices from 1996-2006. However, late 2006 began a trend of declining housing prices coupled with rising interest rates. Subprime borrowers were soon faced with higher mortgage payments and the inability to refinance, culminating in a soaring number of defaults and foreclosures.

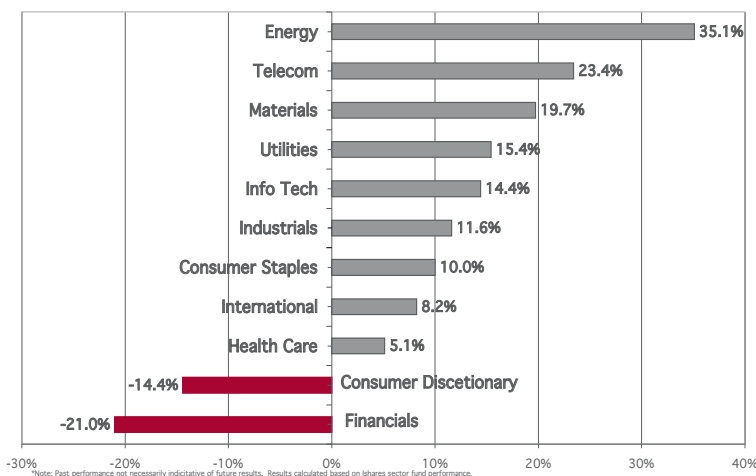
The impact to the stock market has been extensive, most notably to Financial (banks and brokerages) and Consumer Discretionary (retail) stocks. Many of the world’s largest financial institutions were adversely impacted by the default crisis. Either as loan originators (Countrywide, Washington Mutual) or secondary mortgage pool investors (Merrill Lynch, Citigroup), these firms have been forced to write down billions in losses calling into question their own solvency.

Retailers were also adversely impacted by the subprime crisis. With housing prices on the decline and homeowners finding it more difficult to make mortgage payments, discretionary income tightened, resulting in a sharp decrease in spending.

Many of the major US retailers have reported lower earnings as a result of decreased sales. Companies such as Sears Holdings, Macy’s, Kohl’s, and Target have all suffered huge stock price declines primarily as a result of decreased consumer spending.

Contravisory protected our clients by reducing exposure to the Financial and Consumer Discretionary sectors in early ‘07. These two sectors were the worst performers of the year, with Financials declining 21% and Discretionary stocks suffering 14% declines. (See accompanying chart for the performance of each sector for 2007).

Sector Performance - 2007



This experience once again proves that adhering to a rigid sell discipline is invaluable in producing above average long-term returns.

CONTRAVISORY HIRES NEW EXECUTIVE ASSISTANT

Contravisory has named Melody McNeill of Plymouth, MA to the position of Executive Administrative Assistant. Melody joined Contravisory in August of 2007 and has 14 years experience in the financial, health, and insurance industries. Prior to joining Contravisory, she was an Executive Assistant with State Street Bank.

Melody will oversee the daily administration of the investment management firm. Her responsibilities include document preparation, updating database information, scheduling

meetings & travel arrangements, and providing client support.

“Melody’s vast experience coupled with her commitment to excellence makes her the perfect addition to our staff,” said William Noonan, CEO of Contravisory Investment Management. “We’re pleased to have someone of her caliber join the firm.”

McNeill makes her home in Plymouth with her husband. In her spare time she enjoys outdoor activities, including gardening and hiking.

A Quarterly Investment Perspective

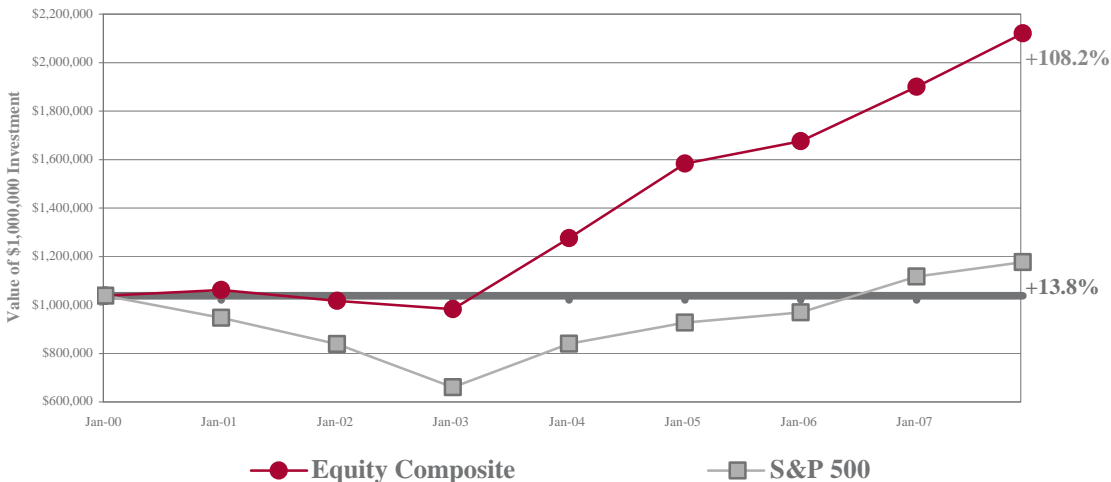
CONTRAVISORY EQUITY PORTFOLIO (Long-Only Equity) Gross Composite Returns Through December 31, 2007

Annual Returns

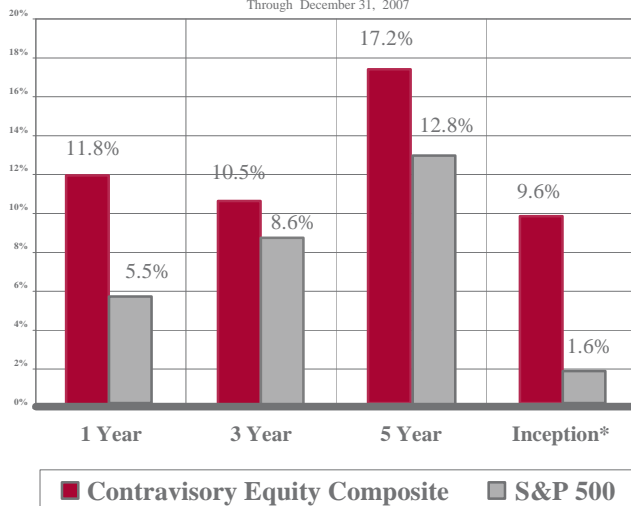
	2000	2001	2002	2003	2004	2005	2006	2007
Equity Composite	2.37	-4.44	-3.48	31.10	24.84	6.00	13.70	11.79
S&P 500	-9.15	-11.91	-22.15	28.62	10.92	4.84	15.80	5.48
+/-	11.52	7.47	18.67	2.48	13.92	1.16	-2.10	6.31

Cumulative Returns

January 1, 2000 - December 31, 2007



Average Annualized Returns Through December 31, 2007



Down Market Analysis

Year	S&P 500	Equity Portfolio
2000	-9.2%	2.4%
2001	-11.9%	-4.4%
2002	-22.2%	-3.5%

Number of Negative Market Years = 3
Contravisory Outperformed = 3
Success Rate = 100%

*Inception: 01/01/00

Disclosure: The Equity Composite contains fully discretionary equity accounts and for comparison purposes is measured against the S&P 500 Index. Contravisory Investment Management, Inc. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS). Contravisory is a registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request. Past performance is not indicative of future results and an investor could lose money by investing in a portfolio of securities based on the Contravisory Equity Portfolio (Long-Only Equity).

WHO IS CONTRAVISORY?

Contravisory Investment Management, founded in 1972 by G. Edward Noonan, Jr., has been providing its proprietary equity research service to leading financial institutions for more than 35 years. Recognizing the success of both the buy and sell recommendations formulated by its equity research, Contravisory has been managing equity portfolios for high-net-worth individuals, families, family businesses, and profit sharing plans since 1992.

Please contact us at **781-749-3380** or visit **WWW.CONTRAVISORY.COM** for a complimentary investment consultation and to find out how Contravisory Investment Management can work for you.

WHAT MAKES CONTRAVISORY UNIQUE?

- ❖ Our investment decisions are based upon more than 35 years of successful research experience and application.
- ❖ Our research methodology is independent, disciplined, and proven. The investment results have been superior for both buy and sell decisions.
- ❖ Our research input is internally-generated. Its application to portfolio management is comprehensive and highly disciplined. We do not rely on any input from “Wall Street” or corporate sources.
- ❖ Our investment approach is non-correlated to most other managers, making our products attractive for those seeking style diversification.
- ❖ Contravisory is a family business, ensuring continuity in our relationships.
- ❖ We succeed only when our clients succeed. As a fee based investment advisor, the success of our management team is tied directly to the success of our clients.

CONTRAVISORY

INVESTMENT
MANAGEMENT



99 Derby Street, Hingham, MA 02043

INVESTMENT
MANAGEMENT

CONTRAVISORY

PRESORTED
FIRST-CLASS MAIL
U.S. POSTAGE
PAID
ABINGTON, MA
PERMIT NO.6