



Longbow Asset Management Company

Quarterly Investment Note August 15, 2006

Being an equity investor is a turbulent and sometimes thrilling experience. Anticipation builds during earnings season with the hope that better than expected earnings will cause stock prices to surge. And excitement often accompanies positive company announcements, such as when a firm increases its dividend payment or initiates a significant stock buyback program. But no single event quickens an equity investor's pulse faster and brightens their mood more than news of a premium buyout offer.

Suddenly and unexpectedly, the atmosphere becomes charged with excitement. The 24 hour cable news networks buzz with discussion and analysis and newspaper editors scramble to print bold headlines heralding the news. Exhilarated investors see their stock 'gap up' on price charts to reach levels that are on average 35% higher than its pre-announcement price.

Investors in the Longbow Equity Composite have experienced this thrill several times in the past year. Below, we highlight three buyout announcements that benefited our clients and contributed to our equity composite's **+31.90%** total return since inception, which covers the period from September 30, 2003 to June 30, 2006.¹

Premium Buyout Example 1:

<i>Acquired Longbow Client Holding:</i>	<i>Burlington Resources Inc.</i>
• Buyer:	ConocoPhillips
• Announcement Date:	December 12, 2005
• Closing Price:	\$86.07
• Price Appreciation:	+13%

The \$35.6 billion deal in which ConocoPhillips (NYSE: COP), the third largest U.S. oil and gas producer, agreed to buy Burlington Resources Inc. created the second largest U.S. gas producer behind London-based BP (NYSE: BP). The deal was the biggest for the energy industry since Chevron Corp. (NYSE: CVX) agreed to buy Texaco Inc. in 2001 and further aided ConocoPhillips in its quest to catch Chevron for the number two spot behind global powerhouse Exxon Mobil (NYSE: XOM), another Longbow client holding.

We liquidated our entire position in Burlington on March 30, 2006, the day before the completion of the merger, at an average price of \$91.98. With an average cost basis of \$53.70, it produced a 71% return for our clients.

Premium Buyout Example 2:

<i>Acquired Longbow Client Holding:</i>	<i>Kinder Morgan Inc.</i>
• Buyer:	Kinder Morgan Insiders
• Announcement Date:	May 29, 2006
• Closing Price:	\$99.46
• Price Appreciation:	+19%

The \$21.6 billion leveraged buyout (LBO) of Kinder Morgan (NYSE: KMI), the Houston-based oil and gas pipeline operator, by CEO Richard Kinder and a group of investors, including other members of the board and management team, represents the single largest management buyout and the third largest leveraged buyout in U.S. history.

¹ The Longbow Equity Composite is comprised of actual client accounts and is calculated net of fees and commissions. Past performance is no guarantee of future results.

Upon approval, the buyers would purchase all of the outstanding stock for \$100 a share. Fortunately, we liquidated our entire position in Kinder Morgan at an average price of \$102.18 on the announcement date as the market priced the shares at an intra-day premium and we were able to take advantage. With an average cost of \$96.43, it produced a 6% return which was significant considering the energy sector's early year swoon during our five-month holding period.

Premium Buyout Example 3:

<i>Acquired Longbow Client Holding:</i>	<i>HCA Inc.</i>
• Buyer:	Private Equity Consortium
• Announcement Date:	July 24, 2006
• Closing Price:	\$49.31
• Price Appreciation:	+13%

The \$31.6 billion buyout of HCA Inc. (NYSE: HCA), the largest U.S. hospital chain, by a private equity consortium comprised of Bain Capital, Kohlberg, Kravis Roberts (KKR) and Merrill Lynch Private Equity as well as members of HCA's board of directors and management team is the largest leveraged buyout ever, narrowly surpassing the legendary 1989 RJR Nabisco LBO.

The transaction is expected to be completed during the fourth quarter of 2006 at \$51 per share pending the approval of shareholders. In turn, we continue to maintain our position in HCA. With an average cost of \$42.43, the proposed buyout would produce a 20% return for our clients.

Lightning has struck the Longbow Equity Composite three times in the past year. Quite unexpectedly, several core portfolio holdings were 'electrified' by buyout offers, providing our clients with instantaneous and significant returns.

Naturally, each time we were excited. But what pleased us the most was that these returns were captured by an equity strategy that makes portfolio construction, rather than ad hoc security selection, paramount.

We use a computer driven portfolio optimization model combined with sound judgment to construct well diversified equity portfolios. Our transparent and defined process insures that reason rather than emotion invests our clients' funds. We will not be shocked if buyout lightning strikes again in the future, but we will never count on it or take unnecessary risks pursuing it.

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Each of our firm's clients is unique and each has different investment goals. We work efficiently and in a disciplined manner to design investment solutions to meet our clients' needs. We invite you to call our office at (918) 295-9929 or send an e-mail message to jakedollarhide@lbamc.com if you have any questions or need assistance anytime. We are always available to help and we appreciate your trust and confidence.