

The FORTRESS PARTNERS

E-Memo

TO: INVESTORS/MEMBERS AND FRIENDS
FROM: Bob Ollech and Jon Bruss
Date: June 12, 2007
Subject: A Seasoned Investor Reacts To "Are We There Yet?"

Last month we focused on the oft heard question from the back seat, **"Are we there yet?"** When we related that question to bank stock investors, we're tempted to ask out loud (on these pages) whether the question being asked was a reflection of the investment savvy of the questioner. That may sound rather harsh, human nature being what it is, but on the other hand, many of us never totally get rid of our training wheels, your writers included. Most investors just don't have the stomach to deal with near term uncertainty, professional investors included. As a result, they tend to overreact, to process information incorrectly and to trade too frequently. In short, they base their actions on short term variations, rather than long term trends. It takes perspective and confidence to lean against the crowd when your investments are "out of favor" and to buy when others are selling. This is nothing new; volumes have been written on the topic of investor behavior. We continue to be fascinated by investor behavior as a contrarian indicator. Sometimes, however, there are exceptions

A few days ago, one of our clients phoned to talk about a portfolio of bank stocks he assigned us to manage early this year. We spent nearly an hour discussing the outlook for bank fundamentals, the market for bank stocks and the specifics of many of the individual banks in his portfolio. Our client, a retired securities industry CEO with many years of experience investing in small-cap bank stocks, is successful in his own right without the benefit of inherited wealth. He is one of our favorites not just because he understands banks, but also because he understands the markets and human behavior; he has a perspective, garnered from years of experience and study that many investors lack—especially those of us with training wheels. During our discussion, his focus was on the relative value of the small bank sector and his thoughts were to add cash to his portfolio to enable us to increase some existing positions and to add a few new banks, at bargain prices, to the mix. This attitude is in stark contrast to the behavior of two individual investors and a professional investor, all of whom recently requested the redemption of their interests in our bank fund.

The ability of our client to look past the current malaise in the shares of small banks to the potential upside as some of the headwinds blowing against the banking industry begin to subside is, in part, why he can spend summers at his second home on Cape Cod, or wherever he wants, for that matter. In short, he is living and breathing proof of the old investment maxim, "Buy Low—Sell High."

The NASDAQ Bank index is off over 6% year-to-date and many individual small and mid-cap bank stocks are down even more. As of June 8, small cap banks occupied some of the lowest ranks for 6-month price performance of the 197 industry groups tracked by *Investors Business Daily*:

Industry Group	Rank	YTD % Change
Banks - Midwest	196	(10.7%)
Banks – Northeast	194	(9.6%)
Banks – Southeast	192	(7.7%)
Banks – West/Southwest	184	(7.3%)

In our experience, many of the best investment opportunities are created when investors focus on near-term uncertainties and lose sight of longer-term prospects. We believe that we are in a period such as that today.

In fact, we believe so strongly that such an opportunity is before us today that we are willing to modify our self-imposed rules relating to minimum investment size just so you too can participate in a professionally managed portfolio of micro and small cap publicly traded banks. Call us.

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