

Quarterly Commentary | October 2008

The markets have been very volatile in the last few months and the news agencies have worked diligently to keep us aware of each gyration on a never ending basis. We are constantly being bombarded with gloom and doom news. We have heard over and over again about the big bad banks, the unscrupulous CEOs and the damage and havoc they have wreaked. We agree there is a lot of blame to go around and we share your concerns about the market and even your anger. However, we do not believe we are headed for the next depression and we are confident in our clients' abilities to achieve their life goals. Why are we so confident in times like this? For many reasons...

Let's look first at the government's actions.

1. This financial crisis does not just affect the United States. It is global in nature and has elicited coordinated global government responses as well as the participation of the greatest financial minds around the world.
2. We have learned from past events such as the Great Depression and the Japan recession what needs to happen to reduce the duration and/or at least the severity. Below is a list of these measures and the actions taken to address the current crisis:
 - Quick and decisive measures must be taken by the government. As much as people hate to have the government meddle in private affairs, sometimes that is just what needs to happen. During the depression and the Japan recession the governments did not intervene for several years which many economists assert to be the reason why these events took so long to end. In our recent crisis, we have seen the government take quick and decisive action.
 - The financial crisis must be prevented from spreading. This was accomplished when the government stepped in to facilitate the sale of Bear Stearns and stabilize Freddie Mac, Fannie Mae, and AIG. We have seen such measures taken in the overseas banking systems as well.
 - Confidence in the banking system needs to be restored, and has been.
 - FDIC limits were increased to \$250,000 till December 31, 2009.
 - U.S. Treasury Temporary Guaranty Program: The program is designed to provide coverage to shareholders for amounts held by them in participating money market funds as of the close of business on September 19, 2008.

- Aggregate demand should be bolstered.
 - The Federal Reserve as well as central banks worldwide has reduced interest rates significantly to encourage lending and spending. During other financial crises in our past, interest rates were actually raised further impairing the economy.
 - The stimulus package put millions of dollars back into the economy to help stimulate demand.
 - The Federal Reserve has provided many other liquidity packages helping the banks to continue providing services.

- Bad assets must be disposed of quickly, so that surviving financial institutions can recapitalize and be unencumbered in future lending, which is necessary for both the economy and the financial system to get back on their feet. We have all heard about the government plans to buy mortgage-backed securities and take these assets off the books of the banks, thus freeing up capital. We are a few weeks away from the first sale but Secretary Paulsen has stated they are working on establishing the guidelines and plan to start this process in the near future.

- Recapitalization of the banks. This has already been done by the government purchasing \$125 billion of preferred stock in several established banks. We are also anticipating future investments from the government in other banking entities.

Next, let's consider the window of time we've afforded our clients to allow this crisis to be resolved.

While we believe the measures listed above will likely shorten and eventually resolve this crisis, they are not likely to work overnight and are more likely to take several quarters if not years to see their full effect. Our clients are well positioned to survive this potentially extended period because:

1. Our clients have plenty of cash. Many of you have an emergency fund with three to six months of living expenses set aside. In addition, we know what your portfolio cash flow needs are and have provided for cash in your strategy for yearly spending needs so we do not have to sell securities at inopportune times like this.

2. We do not invest in individual securities (other than government bonds). Individual companies are much more likely to go bankrupt than all of the companies represented in the various baskets of stocks (or what we call "asset classes") that we use to structure your portfolio.

3. All of our clients' CD holdings and/or bank deposit and savings accounts which have been placed through us are within the FDIC insurance limitations.

4. Concentration in a few securities causes dramatic fluctuations – up and down. You are insulated from the magnitude of the fluctuations because of the diversification of your portfolio. This does not mean that some asset classes won't have bad returns; it simply means that you won't have so much of your portfolio committed to any one of those funds to cause you to be irreparably harmed.

5. We do not use leverage in our clients' portfolios, therefore limiting the volatility that can be caused by deleveraging as we are seeing with Hedge Funds and other entity liquidations.
6. Our clients are smart and resourceful. You track spending and make financial decisions not on emotions but on economic facts. You spend time evaluating financial purchases and do not make whimsical purchases, therefore maintaining limited debt and living within your means.
7. Our clients who are still earning income understand the advantages of continuing to make consistent periodic contributions to their tax-deferred employer retirement plans. Regardless of what has happened in the market, you can still increase your future nest egg by contributing sufficient amounts to capture the full employer match, buying more shares at lower prices, investing the tax savings from deferring this income, and growing your nest egg in a tax-deferred account.

What has happened recently in the economy?

- We have seen the overnight London interbank offered rate (LIBOR) — the rate banks charge each other for overnight loans – start to decline. This shows that banks are starting to trust one another and the lending freeze may be starting to thaw.
- Oil prices have collapsed, with prices dropping to around \$70 per barrel. This is not a benefit from the actions of the government, but may act as an economic stimulus as people will have an opportunity to spend money on other items since their gas cost will be decreasing.

We will get through this and return to our old selves.

We all know how it feels to have a bad cold. About the third day as you continue feeling terrible, you wonder if your condition will ever get better. Then as you continue to take your medicine, get rest, and follow the doctors other orders, gradually you start to feel better and then one day you are back to your old self. This is what our economy is feeling today. It has a BAD cold and as the medicine (all the items noted above) eases its symptoms, it will gradually start to feel better and one day be back to normal. Much like our health, it is very difficult to know the exact moment when the medicine will kick in and maybe even which symptom will begin to subside first. As we watch the market swing up with each new dose of medicine, only to dive when the cure is not immediate, it is difficult to conclude we're on the mend. Eventually, as the consensus begins to form that, hey, something is working because we feel better, there will be a great rush to get back in the market and enjoy the recovery.

In the meantime, many of you came to us so you could do the things you enjoy the most:

- Spending time with your kids or grandkids
- Pursuing hobbies or careers
- RELAXING

Do yourself a favor. Turn off the TV and go do things that are really important to you. Let the economy work through this historical rough patch and we will do our best to take care of the rest.