

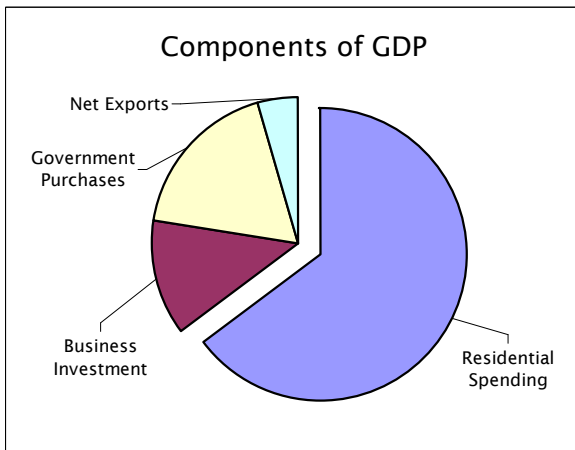
Observations

- There are many participants in financial markets. Although traditional economic and financial theory teach us that participants will act rationally, recent events again prove markets are driven more by the emotions of fear and greed. Specifically, fear of the unknown in the current environment.
- There is plenty of blame to go around for what has gone wrong in financial systems worldwide. In the US, government (especially both parties in Congress), the media, and a ridiculous mark-to-market accounting system. The focus now is on how economic markets will perform going forward.
- Do not believe any of the election rhetoric or promises. What is said to get elected and what is done once one is in office are usually two different things. Come late January, once everybody settles into office and must confront the realities of situations, the promises will be pushed aside. It will be business, er politics, as usual.

Important Figures

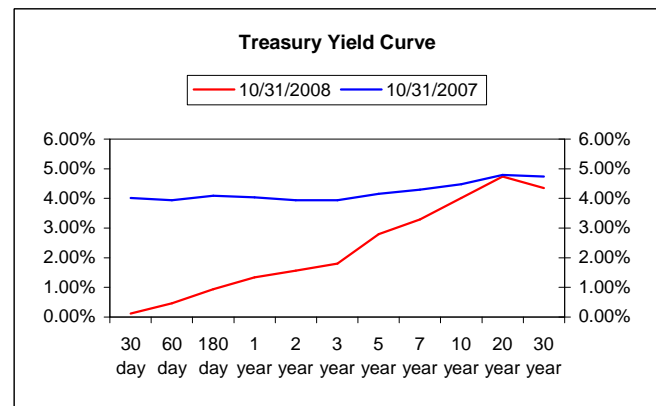
Economic

	US GDP	Unemployment	Inflation
2005	2.9%	4.8%	3.4%
2006	2.8%	4.4%	3.2%
2007	2.0%	5.0%	2.8%
1Q 2008	0.9%	5.1%	4.0%
2Q 2008	2.8%	5.5%	4.9%
3Q 2008	-0.3%	6.1%	4.9%



Financial

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWilshire 5000
2005	4.35%	4.39%	1,248	12,518
2006	4.70%	4.71%	1,336	14,257
2007	3.45%	4.04%	1,468	14,819
3/31/2008	2.47%	3.43%	1,323	13,332
6/30/2008	3.34%	3.98%	1,280	13,074
9/30/2008	2.99%	3.83%	1,165	11,875
10/31/2008	2.80%	4.01%	969	9,769
YTD Return			-34.01%	-34.08%



Economic Outlook

- It is all about the US consumer in our economy. If the unemployment rate can be kept from peaking above 8%, the recession may not be as severe as feared. Keep people working so that they can pay bills, reduce debt and the economy may turn for the better in 2010.
- The consumer still drives the US economy and the next year does not look favorable. Rising local taxes, higher food costs, employment uncertainty, debt reduction, and fear will not inspire consumer discretionary spending for several quarters.
- Housing slumps take a long time to workout. While real estate is local, it will be years before there is any significant appreciation in most residential real estate markets.
- All the liquidity being pumped into the system is likely to spur inflation and/or an increase in interest rates in years to come.

Investment Outlook

- It will take at least three months before credit markets begin to operate normally. There is still a great deal of uncertainty. Until credit markets function with confidence, not much can be expected from equity markets.
- It is Christmas morning for long-term investors who wish to add to equity holdings. Not only in the US, but international equities are becoming attractive. Tough to get excited by a 2.8% yield on a five year Treasury.
- Tax loss selling, hedge fund redemptions, and irrational fear could keep feeding the bears for another month or so. Santa rally in December?
- Volatility in all markets is likely to persist through the first half of 2009, when there should be a clearer direction of the fiscal policies of the new presidential administration and just what Congress is willing to pass.
- New financial regulation will have mixed impact on the investment landscape. Changes in tax law will influence the flows of funds.