September 15, 2008

As we quickly approach the one-year anniversary date from historical highs reached in October 2007, equity markets worldwide continue to perform with erratic swings. Weakness in the financial sector continues to be a primary catalyst for the current uncertainty. So far in 2008, the market has reacted to the collapse of Bear Stearns, a Government bail-out of Fannie Mae and Freddie Mac, as well as the FDIC bailout of over 10 banks nationwide. News from this past weekend, including the bankruptcy filing by Lehman Brothers, liquidity issues within AIG, and the proposed buyout of Merrill Lynch by Bank of America, have only added to concerns.

This morning, the equity markets appear to be heading for yet another significant decline on the heels of the Lehman Brothers bankruptcy filing and capital liquidity issues with AIG. We do not believe selling equities into this type of market is warranted. The weakness in the equity market conditions during the past 12 months seems to have created an environment where liquidity conditions are becoming increasingly favorable. We have listed below some highlights we have received from JP Morgan regarding the levels of cash available in the market place:

- Global money market assets have skyrocketed, and at $5.7 trillion, represent levels not seen before, whether scaled by GDP or equity market capitalization. U.S. and Global money market fund assets have risen by 41% and 32% since the onset of the credit crisis in June 2007.
- Money in global savings accounts and money market funds surged from $21 trillion to $35 trillion from 2003 to 2008, rising by 65%
- In June 2007, the net number of fund managers overweight cash was 4%. That number is now 53%.
- Net credit balances in NYSE cash and margin accounts are now over $150 billion. The prior peak over the last decade was $50 billion in 2001, after having troughed at a debit of $125 billion in early 2000.

In addition to the financial sector, fears of inflationary pressures, brought on primarily by the rapid rise in energy and food prices during the summer months added to investor angst. The negative news across the economy and the markets has incurred a precipitous drop in the equity markets worldwide.

Equity performance for some of the major equity indexes (through September 12, 2008):

	YTD	1 Year	From October ’07 High:
S&P 500	-13.6%	-13.3%	-20.1%
MSCI EAFE	-24.3%	-21.8%	-28.2%

The declines in the equity markets during the past year are not entirely unprecedented. Since the 1960’s there have been nine declines of this magnitude and duration. The declines have ranged from -21% seen in 1990 to the declines in 1973 and 1974 of -45%. On average, the market declines lasted approximately 14 months and have lost -31%. The current market environment is approaching one year of market declines. Interestingly, the recovery period following a bear market has been fairly abrupt and substantial. On average, stocks have rallied over 31% during the 12 months following a bear market.

Clearly, we do not have the ability to predict when the current bear market environment will end. Markets are still reeling from a period of economic conditions which have been characterized by former Federal Reserve Chairman Alan Greenspan as “once-per-century events”. We have maintained an allocation to bonds within each of our clients’ portfolios, which has helped to cushion portfolios from some of the significant downturns of the equity markets. However, the magnitude of the losses seen in the equity markets have had an impact on client portfolios. We will continue to monitor the market environment and will send further updates as necessary.

Should you have any questions regarding the recent market activity, please do not hesitate to contact us.

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