

October 13, 2008

Dear Valued Investor:

Last week was awful, bad enough to push governments around the world into action against the underlying drivers of the financial panic that caused global financial markets to just plain crash. And today we're seeing the markets around the world respond to these government efforts with sizable rebounds.

The Dow and the S&P 500 were down 18.2 % last week. It is cold comfort that international markets fared worse, with the EAFE international stock price index falling 21.7%. The carnage was everywhere. No sector was spared. While last week was not the worst percentage decline (the five days ending October 19, 2002 hold that dubious distinction in the post World War II period), it is close to the largest movement from the height of the market to the low point. At the close last Friday, the S&P 500 was down 43% in a little over a year, not far from the largest post-war decline of 49%, the drop from March 24, 2000 to October 9, 2002.

Thankfully, we are finally getting concerted global government and central bank interventions aimed at stopping the panic. The UK government has intervened, injecting government money directly into two of its largest banks, and over the weekend Germany, France, Germany Spain and other EU nations committed \$1.8 trillion dollars to guarantee inter-bank lending and take equity stakes in their countries' banks. Also over the weekend, the Federal Reserve committed unlimited funds to the European Central Bank, the Bank of England and the Swiss National Bank to meet any demands for short-term dollar loan demand. Today, the U.S. Treasury announced that it will also purchase equity in financial firms along with an accelerated program to buy or insure troubled assets at financial institutions and other measures aimed at stabilizing the financial markets. The U.S. Treasury has heavier compliance and oversight conditions that are slowing it down a bit compared to its counterparts overseas, but is committed to getting these programs underway quickly.

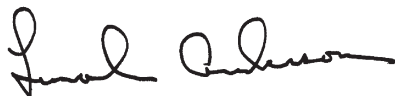
Today, equity markets around the world are higher. The UK ended up 8.3% measured by the FTSE 100 Index; France, Germany and Spain were up about 11% as measured by CAC 40 Index, DAX Index and IBEX 35 Index, respectively; and Hong Kong was up about 10% measured by the Hang Seng Index. Japan's markets were closed today. Here in the United States, the Dow and the S&P 500 are up about 11% at the end of the day. Hopefully we are seeing the bottom, but there is really no way to say. In panics like this one fundamentals get tossed out, so we could move higher or move lower near-term. In times like this, when everybody else seems to be throwing out any consideration of fundamentals, it becomes especially important to keep them in sight.

At last Friday's close, the S&P 500 index price was 899. That is not that far above the bottom of 777 it hit on October 9, 2002. But, despite all the difficulties we are in, S&P 500 reported earnings over the last four quarters were \$51.68 per share, compared to \$27.59 in 2002. And dividends per share are \$28.71, compared

to \$16.08 in 2002. So we had a dividend yield of 3.2% as of the close on October 10, compared to a 2.1% dividend yield in 2002. And, as I have said before, I think that, in aggregate, U.S. nonfinancial companies are in good financial shape and generally well positioned to weather the recession I believe we are in without the severe dislocations we are seeing in the large financial firms.

So where do we go from here? Stopping this credit crisis is imperative; otherwise we will have a spreading credit crisis that would deepen the global recession. I do think the massive global fiscal and monetary policy stimulus will work to end the panic and preserve financial markets. Stock market bottoms usually follow major anti-recession policy actions, not the end of the recession itself. I, along with most folks I am sure, would love a “do-over” on this astonishingly large hit our financial markets have taken, but that is not the way the world works. We have to make do with what we have in hand. I think we are going to find a bottom somewhere not far from here at some time not far from here and then begin the process of recovery. I expect we will have to endure more extreme volatility due to the continued lack of clarity concerning financial market stability and the depth of the recession. There are some bright spots; gasoline prices are back under \$3 a gallon, and home heating oil prices are down sharply. However, generally speaking it is not likely to be a pretty picture for some time. Companies could still fail. We clearly have our work cut out for us to rebuild a financial system that has been sorely tried and found wanting. I know that the well balanced, well diversified* portfolio that I advocate has not provided much shelter from this financial storm, but while also sorely tried, I do not think it is broken. I think it is still the best investment option going forward. As always please call your financial advisor with questions or concerns.

Sincerely,



Lincoln Anderson
Managing Director, Chief Investment Officer

* There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

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