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MARKET REPORT AUTUMN 2008

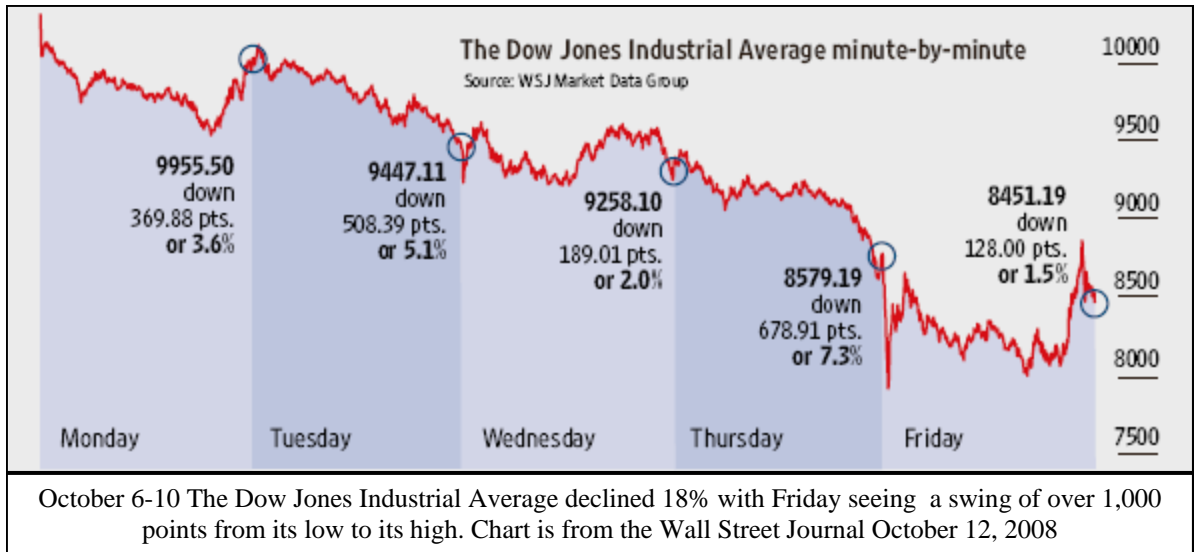
Oct. 13, 2008

Friends,

I took the weekend off. I watched Football. I played with my kids. I didn't read or study the markets. I didn't watch the political news. I know who I am voting for and why. It

comes down to whom I think will be best for the long term growth of our country. Imagine that! I had a great time. We had just experienced the worst 7 day period in DOW history. The credit crunch was in full swing and the bear market was having a feast day every day. Good companies or bad companies it did not make a difference they were all suffering. Finally the weekend came and I took it off. I had come to realize once again something I had forgotten. There are events which will happen that you have no control over and there is nothing you can do about it.

I realized that the governments were going to hunker down and figure out what they needed to do to get the credit markets working again and that I had no control over the negotiations nor the outcome and neither did my clients. We would all be better off if we turned off the News and spent time doing



the things we enjoy. We had positioned everyone's portfolio to maximize preservation of capital while minimizing their exposure to credit risk. We looked at maintaining some diversity for those who might be more aggressive, but only holding those companies or funds that we felt would be stronger five years from now and would weather the storm. We must all remember that money is meant to work for us for the long term and that every investment has its own risks. We always recommend a reduction of your personal debts so that when a crisis hits your mandatory payments are minimal and you would not have to draw on your savings to fund your lifestyle. One of the main factors of this credit crunch has been a number of individuals who owed more than they could afford in a crisis. We fully expect that the credit crunch will end soon. That will result in a rebalancing of prices to what would be considered normal pricing for Fixed In-

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come investments. There will still be volatility in the equity market as it digests the new normal and adjusts expectations to account for the world's first modern day global recession.

What's next you ask? Volatility is the short answer. Like the war on terror this will not be a short term crisis. Things will only be prolonged with the global recession. Deflation in the prices of the goods we purchase. The decline in energy and material costs combined with a decrease in demand for goods and services globally will work in conjunction to deflate the price of goods. This will be followed by inflation from the rapid increase in credit dumped on the world markets by the Federal Reserve and their counterparts around the world. This infusion of capital and credit into the markets was designed to get the credit markets working again. They cannot reduce the credit as fast as they put it in since this would disrupt the market they are trying to reestablish. After the recent selloff of most commodities due to deleveraging, tighter credit, and increased capital needs by institutional investors commodities are once again an attractive asset class. Residential Real Estate over the next six months should become more viable as an investment vehicle as the credit crunch stabilizes and banks begin lending again. Commercial Real Estate is still facing a recessionary economy. The day of no documentation loans is probably over. I would recommend avoiding most financials as the implications of the partial nationalization of the banks will not be known or understood for some time. Avoid the Auto sector as the absence of easy credit combined with the other issues facing the Big 3 lead us to believe that they may not all survive the next few years in their current form. We continue to like energy and oil as petrochemicals will continue to play a big part throughout our economy for decades to come. Be careful of alternative energy as most are not competitive yet with a barrel of oil below \$100.00. They also rely too much on government subsidies at this time. Expect to see some consolidation in the future as they try to

achieve economies of scale. Infrastructure projects in the USA should be big business but they will face the headwinds of shrinking government revenues and budget cuts. Infrastructure projects worldwide should continue at a steady pace as developing countries rapidly build back up their economies. Iraq should prove interesting over the next decade as modern infrastructure, schools and oil revenues combine with a young population to provide fertile ground for economic growth. Take away the emotional rollercoaster the markets have given us for the past year and give the economic numbers a good analytical look and the picture that emerges is not pretty. We face some serious headwinds to our economic growth. Governments are facing declining tax revenues, increased pension & healthcare costs and a decaying infrastructure. The pensions are often underfunded and market performance this year has not helped matters. Businesses face increased costs and an increasing regulatory burden. Consumers are worried about job security, if their bank is safe, who is going to win the election and what is that going to mean, volatile markets depressing the value of their nest egg, they can't sell their house and they can't buy a new one, and the greedy ones who caused most of this mess getting off without penalty or at most a slap on the wrist. The media doesn't help with their 24 hour cycle of crisis this and crisis that with often times frivolous breaking news alerts. Most of it is rubbish and you shouldn't let it determine your life and your happiness. **Life is great! Go out and enjoy it!**



Holst, Vida, Joe Cody, Mary Lin & Joyce Evelyn enjoy Grandparents day at Saint Joseph's School.