Volume 4, Issue 4

Fourth Quarter 2008

ARS Insights

Anderson, Riley, & Spoor, P.A.

Registered Investment Advisor

Index Returns

Third Quarter 2008

- S&P 500 -8.4%
- Dow Jones Industrial -4.4%
- Russell 2000 - 1.5%
- EAFE (Int'l Index) -21.0%
- Lehman Bros. Agg. Bond -0.4%
- DJAIG Commodity Index -28.0%
- DJ-Wilshire REIT Index 3.5%

"We simply attempt to be fearful when others are greedy and to be greedy when others are fearful."

Warren Buffett

Our Perspective … - Kurt Ulrich, Chief Investment Officer

To review the unprecedented market activity over the past quarter, and especially the past few days, I wish to lay the framework for an explanation that will, hopefully, help you understand what has transpired and what our thoughts are moving forward with respect to the allocation of capital.

This crisis has its roots in the late 90s when Congress began encouraging the large mortgage companies and financial institutions to relax their lending standards to allow "sub-prime" borrowers to purchase homes. Between the late 90s and 2006 an extraordinary amount of loans were made to "sub-prime" borrowers using very lax lending parameters. Competition for this business was fierce driving up real estate values causing a huge speculative "bubble" in housing prices that has since burst. During the summer of 2007 these sub-prime loans began to default. These defaults set off a series of financial catastrophes resulting from the huge leverage in the US' Financial system to these sub-par loans. This problem escalated and is now culminating into a wide-spread panic in the financial system and on Wall Street.

Certain sectors of the market did quite well during the first 10-12 months of this crisis as their fundamental outlook remained positive. Consumer Staples and Healthcare sectors have held up relatively well throughout this time. Sectors with the highest growth in earnings and the strongest balance sheets have been Agribusiness and Energy which also did well up until this past July. In July the Federal Reserve was faced with an inflationary threat based on the price of oil, gold, agriculture and a falling US Dollar in the midst of a worsening financial crisis. This was a dire scenario for the economy and forced the Fed to act. They implemented several initiatives in an attempt to "kill" these inflationary threats by attacking the "speculation" in these areas. At the same time measures were employed to help undergird the stock prices of big financial institutions by eliminating the ability to short them (short sale rule) thus improving their prospects of raising capital to stabilize their weakening balance sheets. Coincident with the Fed's unparalleled moves the economy continued to weaken helping to reduce demand for the "inflationary" raw materials such as energy. Inflation expectations were stymied as the prices of oil, gold, agriculture and most raw materials plummeted.

The Fed's "short-sale" rule helped improve the outlook for the financials for a while but as the crisis worsened the Fed began taking much bigger measures realizing the entire financial system was at risk of failure. They took over the Federal National Mortgage Assn and the Federal Home Loan Bank guaranteeing their debt which was owned by financial institutions all over the globe. In addition to orchestrating several other rescues of large companies facing liquidity crises the Fed recently

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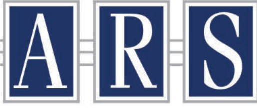

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initiated a $700 Billion plan to undergird the entire system. The markets entered a "panic" mode which to this writing has not subsided…and the Fed is still acting.

Now, to consider where to allocate capital from here forward we must reflect on what has taken place, why, and what the future will look like in order to make prudent decisions. For our clients we have been reducing broad market exposure, European equities and emerging markets equities. We have pared our exposure to non dollar investments and have increased our cash positions. The financial system is still in disarray and may continue to experience negative surprises. This situation will, more than likely, hobble the banks for a long time so capital will remain tight inhibiting our economy and in particular companies that need money. The US consumer is also overburdened with debt so companies selling discretionary items to the US consumer may also underperform. These are areas we will be avoiding for the foreseeable future.

The opportunities and/or safe havens will be in those companies who have strong balance sheets; little need for outside capital; sell goods/services that consumers "need" versus "want" such as food, staples, healthcare, etc…; and, sell goods to foreign consumers who enjoy high savings rates with money to spend (China).

Crises eventually present terrific opportunities to allocate capital. We will approach all potential opportunities with caution always weighing the risk/reward in the months ahead. In the mean time the larger than normal allocation to cash (money market) will give us the ability to take advantages of these opportunities when they come. We will continue to do our best to manage risk and diversify your assets in a prudent manner which will, ultimately, prove to be the best approach for protecting and building wealth.

Respectfully,

Kurt Ulrich

If you would like a copy of the most recent version of our Form ADV Part II, one is always available to you upon written request.