

November 5, 2008

This is the first of our new monthly update letters we will be sending at the beginning of each month. The format will be concise and informative, highlighting three areas: 1) the prior month's market events and statistics 2) our prior month's trading activity (buys and sells) with a brief explanation of our reasoning 3) investing ideas we are researching and considering for the current month.

### **OCTOBER 2008**

- ❖ The Dow Jones Industrial Average:
  - Up +11.4% for the week ending 10/31/08 – the best week for stocks in 34 years
  - Down -14.1% during October, which was its worst monthly performance since 1998
  - Down -29.7% year-to-date.
- ❖ The S&P 500:
  - Up +10.7% for the week ending 10/31/08
  - Down -16.9% during October, which was its worst monthly performance since 1987
  - Down -34.03% year-to-date.
- ❖ On October 13th, the Dow Jones Industrial Average had its best one day gain ever of 936 points.
- ❖ On October 15th, the Dow Jones Industrial Average had its second worst one day loss ever of 733 points.
- ❖ The Dow fell for eight straight sessions from September 30 to October 10 (falling 2,400 points) – the longest losing streak since the eight days of declines following Sept. 11, 2001.
- ❖ The U.S. Dollar reached an 18 month high versus a basket of foreign currencies.
- ❖ Crude Oil was down 33% in October and fell to a level over 50% below its peak reached in June.
- ❖ The Volatility Index (VIX) measures the volatility in the market. The VIX has historically traded between 10 and 35. The lower the reading the lower the volatility; the higher the reading the higher the volatility. The VIX reached an all-time high of 89.53 on Oct. 24.
- ❖ The market is starting to look past the credit crisis and is starting to look at a long, deep recession.

### **OCTOBER INVESTMENT ACTIVITY:**

- ❖ We reduced our overall equity exposure and increased our allocation to cash in many accounts in early October.
  - We sold MOO, an agribusiness ETF which is a proxy for the global agribusiness sector, in an effort to reduce portfolio volatility and commodity exposure.
  - We sold SLASX, a diversified mutual fund, due to its heavy allocation to financial and energy stocks. This will further reduce volatility.
- ❖ We bought Preferred Stocks for many accounts.
  - Bank One, now owned by JP Morgan. Bought with a yield over 10%.
  - Countrywide Mortgage, now owned by Bank of America. Bought with a yield over 11%.
  - PFF – Preferred ETF yielding over 10%.

### **CURRENT OPPORTUNITIES:**

- ❖ High Yield. Currently spreads over Treasuries are at or near record levels for most fixed income securities. We are researching the safest way to earn some of that spread.
- ❖ Stay defensive - maintain an abnormally high level of cash due to economic uncertainty.
- ❖ Look for additional high yield opportunities (e.g., the recently purchased preferreds).

Sincerely,

*Tony Anderson*