October 6, 2008

Client
Address
City

Dear Client;

In my last quarterly letter I advocated focusing on the long-term when making investments and reviewing results. That was the proper approach as I began to see some stability in the real estate and investment markets during the summer. However, I was forced to modify that strategy when the U.S. Government took control of mortgage giants Fannie Mae and Freddie Mac and wiped out preferred shareholders, followed by the Government's failure to step in to prevent the bankruptcy filing by Lehman Brothers.

What followed was a complete boycott of and resulting selling spree for every type of bond security except U.S. Government issues. This lack of credit for corporations and municipalities led to a run on money market funds that was stopped by the unprecedented U.S. Government offer to insure all money market funds through year end. There was also a run on the banks by large depositors that hopefully will be stabilized by the just past increase in FDIC insurance for bank deposits to $250,000. As we stand now, the freeze in the credit markets allows for the U.S. Treasury to borrow on the three-month basis at an annual rate of 0.63% while the likes of a AAA rated borrower such as General Electric or Toyota Motors have to pay over 3.33% for the same time period, a previously unheard of spread. Indeed, many quality borrowers have no access to funds in the debt markets.

Fortunately, the Federal Reserve has flooded the banking system with funds so that banks may then loan to these corporations, but even the banks have been very, very tight with credit extension. Also the dollar has strengthened recently as there has been a flight to quality, money moving into U.S. Government securities, as there is the realization of what began as a U.S. economic slowdown will probably lead to a global recession, and that the U.S. is addressing the problems ahead of and at a much faster rate than Europe. Finally, there is the hope that the just past "Bailout" bill will also help to unfreeze lending markets. Keep in mind the Treasury Department and the Federal Reserve will continue to throw everything they have, including interest rate cuts, accounting changes and direct investment, at this credit freeze problem until it is solved. However until this issue improves, I will continue to have a reduced exposure to the stock market to preserve capital.

Please compare your portfolio performance outlined in the attached report to the following investment alternatives on a year to date basis.

U.S. Stock Indices	Dow Jones	-18.20%	S&P 500	-19.29%	NASDAQ	-20.68%
U.S. Corporate Bond Indices	Investment	-8.58%	High Yield			-10.23%
MSCI Barra Developed Non-U.S. Markets		-30.17%	MSCI Barra Emerging Market			-36.82%

As you can see, unlike other periods of economic disruption there is no positive asset class performance save U.S. Treasury bonds. Even municipal bonds have put up negative returns for the year.

Clearly I have had to rethink my expectation outlined in last quarter's letter that this was only a market, not an economic, problem as the credit freeze has infected the economy. As such I have been making investment decisions from a much more cautious perspective. I still think being positioned with plenty of safe short-term bonds, mostly certificates of deposit and U.S. Treasury bonds, combined with high quality U.S. stocks is the best approach going forward.

In closing, there is plenty of investment capital to support the investment markets and the economy, but until it begins to be deployed, cautious investing is the rule. I will contact you, or please call me when you get the chance, so that we can discuss your portfolio and the investment environment in greater detail. Thanks again for your confidence in me as I handle your portfolio as I would my own.

Best regards,

Peter V. Hedberg