The markets in November were as good as in October and continued their irrational melt down. The sell-off took place at virtually record paces, as it has become increasingly clear that the credit crisis is taking its toll on the real economy in the U.S. and abroad. Mutual fund companies sold for redemptions, tax-losses and capital gain distributions in December, hedge funds have been selling furiously since September to raise cash to pay their investors. Furthermore, Lehman Brothers was a prime broker to many hedge funds, holding their shares. There are billions of dollars locked into the Lehman bankruptcy especially in England, and hedge funds are forced to sell positions in the U.S. and elsewhere to raise cash, exacerbating the downside especially in the U.S. stock markets. There was also margin call related selling which added to substantial price drops in stocks. The best relative performance in the stock market showed sectors thought to be most resistant to emerging softness in non-manufacturing. This broadening declines in manufacturing and consumer confidence, and a recession which remains the steep decline in housing with the dramatic affects on the financial services industry followed by sharp declines in manufacturing and consumer confidence, and emerging softness in non-manufacturing. This broadening business slump, along with uncomfortably high levels of new weekly jobless claims, suggests we are in for an extended recession. We think the recession could last until the middle of next year, making this one of the more severe downturns we have faces in several decades. The recovery is likely to be jumpstarted by President-elect Barrack Obama who in January 2009 will propose an economic stimulus package of $700 billion with the main focus on federal infrastructure. The plan would create jobs, finance highway projects, alternative-energy initiatives, and include tax cuts, education programs and aid to state governments struggling to balance their budgets. This package should help to off-set consumer spending declines in the next two years.

**Corporate earnings**

According to preliminary figures (94% of companies reported) Q3 operating earnings are down 22% for the companies in the S&P 500 versus Q3 of 2007 marking the fifth consecutive quarter of negative earnings growth for the world’s most followed stock market index. Earnings of nonfinancial companies, however, were up 18%.

**Inflation**

Inflation resurfaced as a serious problem earlier this year with the steep rise in oil price to $149 in early summer bringing the price of oil and other commodities down sharply taking care, at least for now, of any lingering inflation problem. In fact, consumer prices, which largely had held within a 2%-3% band during the past decade, had risen by 4.3% and 5% respectively in the first and second quarters of this year, have started to ease and could be back in the Federal Reserve’s 1-2% comfort zone by next year. Talk of deflation is also being heard, although we do not think such a scenario is ahead, at least for any length of time.

**Conclusion**

Stock market valuations are below where they were in 2000. True, valuations were excessive eight years ago, as part of the Internet bubble. Since then, the U.S. had to deal with the tragedy of a 9/11 terrorist attack, an unprecedented rise in energy prices, a collapse in housing, the demise and/or the virtual nationalization of its banking system. Some of these issues, including the surge in oil prices and the meltdown in the banking and financial sectors, seem to be easing a bit, and we may be closer to the bottom in the housing cycle than many believe. Finally valuations have declined materially, although as earnings soften further, upward pressure on valuations will resurface. Nevertheless, with the recession perhaps over by mid-2009 and with earnings likely to rebound thereafter, the stock market—which usually anticipates economic and earnings turns some six months in advance—could soon be an attractive place to commit money once again. In fact, with equity multiples now near five year lows, following further recent declines, the risks would seem to be somewhat less than they were earlier this year when P/E’s were lofty. The prudent investor, however, suggest waiting until February 2009 before committing.

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### U.S. Financial Markets

<table>
<thead>
<tr>
<th>Security</th>
<th>As of 31-Oct-08</th>
<th>MTD</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>DJ 30</td>
<td>9,325</td>
<td>-13.89%</td>
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<tr>
<td>NASDAQ</td>
<td>1,720.95</td>
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<tr>
<td>S&amp;P-500</td>
<td>968.75</td>
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<td>10Yr.T/Yld.</td>
<td>3.95%</td>
<td>+3.28%</td>
<td>-1.73%</td>
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<tr>
<td>Crude Oil</td>
<td>$67.81</td>
<td>-32.61%</td>
<td>-29.37%</td>
</tr>
<tr>
<td>US$/Euro</td>
<td>1.2725</td>
<td>+9.70%</td>
<td>+12.78%</td>
</tr>
</tbody>
</table>

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**NOVEMBER 2008**

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