



October 24, 2008

Dear Client,

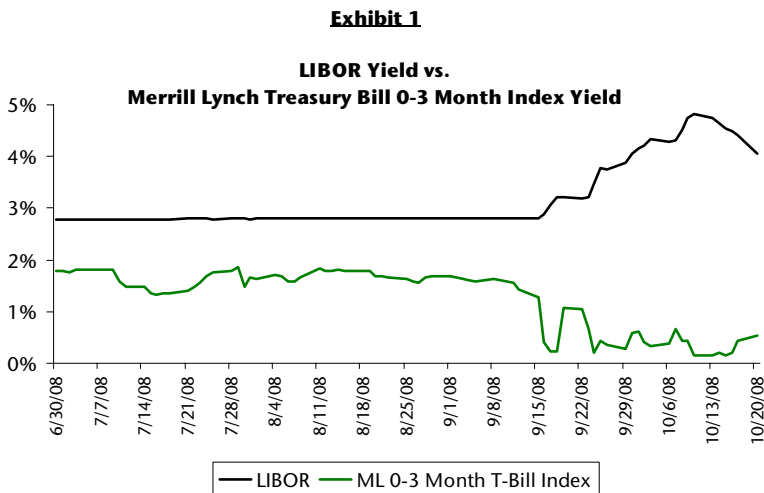
We understand the anguish and frustration that you may be experiencing as a result of this severe bear market which is testing the patience of most investors; we recognize that negative returns are always difficult and unsettling. However, economic cycles will always exist and, historically, recoveries and bull markets follow declines and bear markets.

While we have no way of predicting when the market will reach bottom, we believe the very aggressive, broad-based and flexible monetary and fiscal policies developed (as well as other public initiatives) will start healing the financial system. The Federal Reserve, the Treasury, the FDIC and Congress are implementing these programs. We believe these initiatives will gradually restore public confidence which is crucial to minimize the damage that is occurring in the economy. Moreover, we are confident that the inherent strength of the US economy and its multiple components, including the corporate sector, will succeed in turning this very difficult period around.

Fortunately, the European and other major world economies also have implemented, on a coordinated basis, aggressive economic policies to address the near freeze of the world's financial systems. These policies are designed to heal global financial markets, restore confidence – the most precious commodity in the economy – and contribute to minimizing the worldwide economic slowdown.

The application of various and significant measures has started to thaw the credit markets. These measures include: floods of liquidity by central banks worldwide,

lowering of interest rates, money market and interbank lending guarantees, raising of deposit insurance limits, capital injections into the banking systems (e.g., the \$700 billion Emergency Economic Stabilization Act) and commercial paper facilities. This slow unfreezing of the credit markets is evidenced by the recent decline in the



LIBOR rates<sup>1</sup> (see Exhibit 1 above). Even though these initiatives are massive and critical, it is important for investors to recognize it will take time for these healing measures to translate into renewed confidence, stability and economic and financial recovery.

Additionally, it is vital for the monitoring authorities to ensure that the banking system transforms the assigned capital resources into ample, prudent credit for critical sectors of the economy. Moreover, such credit should be provided as quickly and as efficiently as possible to minimize further damage to the economy.

Additional measures also are needed to address escalating foreclosures and declining home values. Resolving these two problems is critical to re-establish stability in the system. Although support for the housing market is included in some of the programs that already have been enacted, we believe more concrete and swiftly executed initiatives are required.

While the economy has been experiencing a slowdown (which many argue is already a recession), the potential severity has increased due to the recent turmoil, augmenting the fear and anxiety already present among all consumers and businesses. This heightened apprehension leads to a reduction and/or deferral in both consumer spending and corporate investment, further exacerbating the situation. It is increasingly likely that US GDP growth could turn negative during the next few quarters.

Since the implemented measures take time to trickle down and lift public confidence, it is imperative for the political leadership of the US to act immediately and aggressively to address these issues, reassuring the public that this crisis will be solved using whatever means are necessary. Whoever wins the upcoming election should make restoring economic confidence his immediate and foremost priority.

Although financial markets and the economy are facing strong headwinds, some important changes have occurred that could help in the recovery. Most importantly, the price of oil has significantly declined. When oil reached almost \$150/barrel a few months ago, some expectations were that prices might climb to \$200, becoming an even larger drain on both the purchasing power of consumers and the profit margins of many businesses. As of the date of publication, the \$64/barrel price is less than half that seen during the summer and the prices of many other commodities and foodstuffs also have declined. These price drops are immediately benefitting both consumers and businesses and will substantially contribute to reducing the previous inflation threat if maintained. They also will allow central banks to continue acting more aggressively in dealing with the current credit crisis without creating an immediate inflationary impact.

It is important to remember that during the last few years, many US corporations have strengthened their balance sheets, improved productivity, achieved cost efficiencies, increased profit margins, realized important innovation and technological changes and generated large cash flows. The current economic environment will be challenging for

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<sup>1</sup> The London Interbank Offered Rate (LIBOR ) reflects the interest rate that banks can borrow funds from each other. Some loan interest rates (e.g. to corporations) are derived from this rate.

these companies, resulting in temporarily softer earnings. However, in most cases, these difficulties could most likely be overcome. With this in mind, the current large discrepancy seen between corporations' intrinsic and market values, which has been amplified by forced liquidations (i.e., hedge funds, margin calls and panic sales), may not be justified. Eventually, valuations should return to their proper levels.

The third quarter of 2008 was an extremely difficult period for the US and international equity markets as indicated in Exhibit 2.

<b>Exhibit 2</b>			
<b>Total Returns as of September 30, 2008*</b>			
	<b>Sept. 2008</b>	<b>Third Quarter 2008</b>	<b>Year-to-date</b>
<b>Major Equity Indices</b>	<b>%</b>	<b>%</b>	<b>%</b>
S&P 500 Index	-8.9%	-8.4%	-19.3%
Russell 3000 Index (Total US market)	-9.4%	-8.7%	-18.8%
Russell 2000 Index	-8.0%	-1.1%	-10.4%
MSCI All Country Ex-US Index (Net)	-15.0%	-21.9%	-29.9%
MSCI EAFE International Index (Net)	-14.5%	-20.6%	-29.3%
MSCI Emerging Markets (Net)	-17.5%	-27.0%	-35.5%
<b>Major Fixed Income Indices</b>	<b>%</b>	<b>%</b>	<b>%</b>
Lehman Brothers US Aggregate Bond Index	-1.3%	-0.5%	0.6%
Lehman Brothers Credit Investment Grade	-6.6%	-6.4%	-6.8%
Merrill Lynch US High Yield BB-B Bond Index	-7.6%	-8.4%	-8.9%
JP Morgan Non-US Index Hedged	0.1%	2.6%	2.4%
JP Morgan EMBI Global Index (Emerging markets)	-6.8%	-5.1%	-5.2%

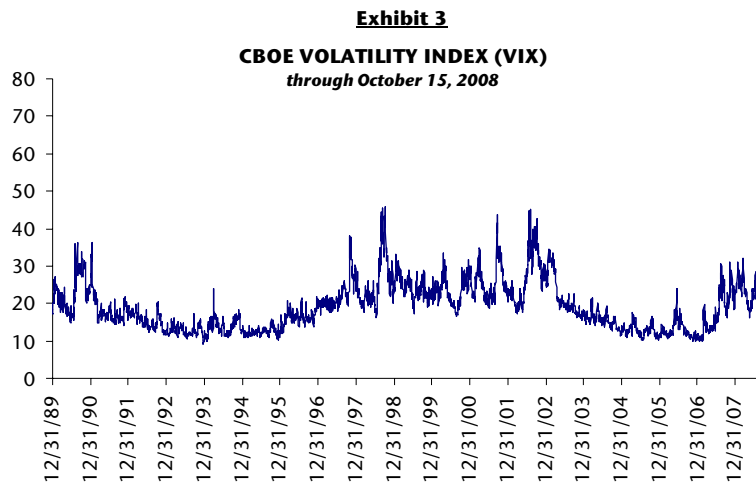
\* Including price appreciation plus dividends and/or interest.

After September 30<sup>th</sup>, however, both the equity and fixed income markets experienced their most volatile turns this year. The S&P 500 and EAFE indices dropped an additional 19% through October 17<sup>th</sup>, while the emerging markets saw an even greater decline during the same brief period. The corporate, high-yield, municipal and foreign bond markets also experienced heightened volatility, but at a lower level.

Negative returns were seen in all equity asset classes. Growth, value, large-cap, small-cap and foreign stocks all suffered steep declines, while the volatility of the markets reached unprecedented levels. The CBOE Volatility Index (VIX), a key measure of market expectations of near-term volatility and a barometer of investors' sentiment (see Exhibit 3 below, which ends mid October '08), rose dramatically during those weeks to reach unparalleled levels - over 50% higher than the levels reached both during the 1998 credit crisis and 2002 bear market.

In our view, the most recent stage of the market decline appears to have been affected by an excessive level of fear, anxiety and forced selling, as discussed above. Oftentimes, when the mood and psychology of the markets are this negative it is a sign that the bottom is near. It is during these periods that positive developments tend to be overlooked and the investor views the glass as half empty, rather than half full. Due to the severity of the problems in the worldwide financial and credit markets (which also have affected fixed income), even time-tested diversification strategies have not mitigated the negative impact of this bear market to the extent previously seen.

It is important to recognize that many negative factors have already been priced into stocks and, by the standards of several models and studies, stocks appear to be undervalued. At the same time, interest rates are at very low levels and probably will see further reductions. Of course, there is always the possibility that more pessimistic scenarios may materialize in the areas discussed, and conditions may worsen. However, we believe investors and the markets are now more pessimistic than is warranted by the existing conditions and prospects.



Lastly, many of the mutual fund portfolio managers that we work with see ample global investment opportunities existing across almost all asset classes, including fixed income, and they will appropriately take advantage of these opportunities where feasible. Similarly, as we observe market stabilization occurring we will gradually rebalance clients' portfolios in line with their investment policies, where appropriate.

Please do not hesitate to call us at (301) 881-3727 if you have any questions or concerns about your portfolios. The following pages contain your year-to-date portfolio reports as of September 30, 2008.

Sincerely,

The SOL Capital Management Team