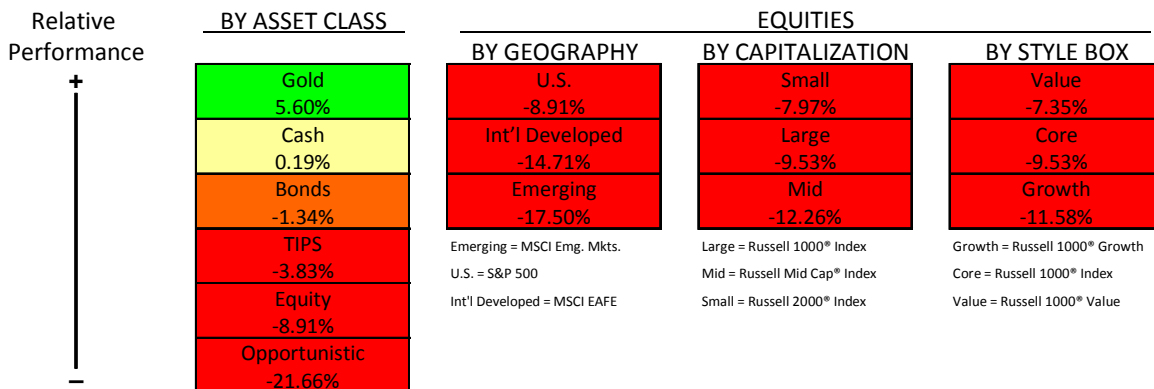


September 2008 will go down as one of the most brutal, and eventful, months in financial market history. Once the Labor Day holiday had passed, market participants put the lazy days of summer behind them and took a closer look at the problems embroiling the markets. In this month, a series of crises came to the boiling point: the federal government seized control of Fannie Mae and Freddie Mac; Lehman Brothers failed to secure a buyer, was passed over by the federal government, and filed for bankruptcy; Merrill Lynch was forced into a merger with Bank of America for survival; AIG neared bankruptcy and was finally given an \$85 billion federal loan; the first money market fund ever established “broke the buck” due to holdings in Lehman paper; Morgan Stanley and Goldman Sachs ended the era of the investment bank by transforming into commercial banks which now will take deposits and be regulated by the Federal Reserve; and finally, mercifully, the month came to an end with the House of Representatives rejecting the Bush Administration’s \$700 billion bail-out plan.

Almost no investment category generated positive returns in September. The DJAIG Gold subindex returned 5.6% as investors sought a safe haven. As a cash equivalent, short-duration Treasuries posted modestly positive returns, but some traditional money market funds suffered as questions surrounding the solvency of bank-issued paper weighed on them. Spreads above Treasuries on virtually any type of credit product soared as risk appetite completely disappeared. Corporate bonds and even municipals commanded historically-high premiums in an environment where anything not guaranteed by the government was punished. The broad fixed-income Lehman Aggregate benchmark declined -1.3% in September.

The dollar rallied as demand for Treasuries soared, and oil declined on expectations that global growth will continue to slow on the back of the U.S. and Europe. Dollar strength sapped international returns for dollar-based investors. The MSCI EAFE index of international developed markets lost -14.7%, while the MSCI Emerging Market index fell -17.5%. The opportunistic “BRIC” (Brazil, Russia, India & China) suffered from the market’s aversion to risk, declining -21.7% in the month.

The S&P 500 lost -8.9% in the month, largely due to the -8.8% one-day drop that occurred on September 29<sup>th</sup> in the aftermath of the Congressional “no” vote on the bail-out package. No U.S. equity asset class was immune with small- and mid-caps down -8.0% and -12.3%, respectively. Value equities fell -7.6% while Growth stocks fell -11.6% as prospects for economic growth dimmed.



TIPS = Lehman U.S. TIPS, Bonds = Lehman U.S. Aggregate  
 Cash = Lehman 1-3 Mo T-bill, Gold = DJAIG Gold subindex  
 Equity = S&P 500, Opportunistic = MSCI BRIC

Emerging = MSCI Emg. Mkts.  
 U.S. = S&P 500  
 Int'l Developed = MSCI EAFE

Large = Russell 1000® Index  
 Mid = Russell Mid Cap® Index  
 Small = Russell 2000® Index

Growth = Russell 1000® Growth  
 Core = Russell 1000® Index  
 Value = Russell 1000® Value

Source: Lehman Brothers, Dow Jones-AIG, Standard & Poor's, MSCI Barra, Russell

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