

COMMENTARY ON RECENT EVENTS

The credit contraction which began last year has culminated in some extraordinary, if not historic, events. We believe the actions of our Fed and Treasury were appropriate and designed to stabilize the financial system. They were in response to the threat of near-term systemic collapse. Importantly, as our policy makers acknowledged, the measures adopted in response to Bear Stearns and Fannie Mae/Freddie Mac were neither long term solutions nor restructuring efforts.

We anticipate that a comprehensive restructuring of the credit markets will require a substantial amount of time and regulatory reform. Such restructuring will likely involve stricter controls over leverage and risk management. While these future developments could both raise the cost of capital and reduce its availability, we believe the financial system will ultimately be healthier. The days of cheap capital are likely over, at least for the next few years. However, we look forward to an era of fewer boom-bust cycles that inflict tremendous collateral damage when asset bubbles inevitably burst. Moreover, a system that implements better risk management safeguards should help promote sustainable, long term economic growth.

The markets and various global economies will, therefore, undergo a significant transformation over the next few years. This transition will likely manifest in heightened market volatility, and it will be characterized by uncertainty and a continuation of these episodic swings from panic to euphoria.

Note that all charts, tables, and graphs utilized in this analysis were obtained from the Bloomberg Financial Markets system unless otherwise indicated.

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UPDATE ON THIRD QUARTER ACTIVITY

- At the end of the Second Quarter, the world was concerned about the sufficiency of the supplies of energy and other commodities to meet burgeoning global demand. While the US fretted over the collapse in property values and crippled banks, the rest of the world continued to grow at a remarkable rate – **UNTIL** – crude oil prices eclipsed the \$145 per barrel level.
- Since that period in early July, commodities prices have collapsed. The world is now concerned about a) a sharp deceleration in Chinese economic activity; b) recessionary indicators in Europe; and c) the spreading credit contagion. Clearly, commodities prices reflected excessive speculative activity earlier this year, and their parabolic rise hindered the ability of emerging market economies to fund basic necessities.
- The stock market sell off which began in mid August reflects anxieties over the Fannie Mae/Freddie Mac situation, among other worries. It also suggests the markets have begun to price in a global recession for 2009. The “de-coupling” debate has been settled, in other words, as it is apparent that the rest of the world will not avoid the economic slowdown resulting from the bursting of the US property bubble.
- Exacerbating the decline in commodities prices has been the sharp rise in the Dollar. Currency movements are relative, and investors seeking safe haven in the greenback are likely concerned that other economies have further to fall. Such a rebound is positive, as price declines for food and energy are welcome relief to the average cash strapped, debt burdened US consumer.

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WHERE DO WE GO FROM HERE?

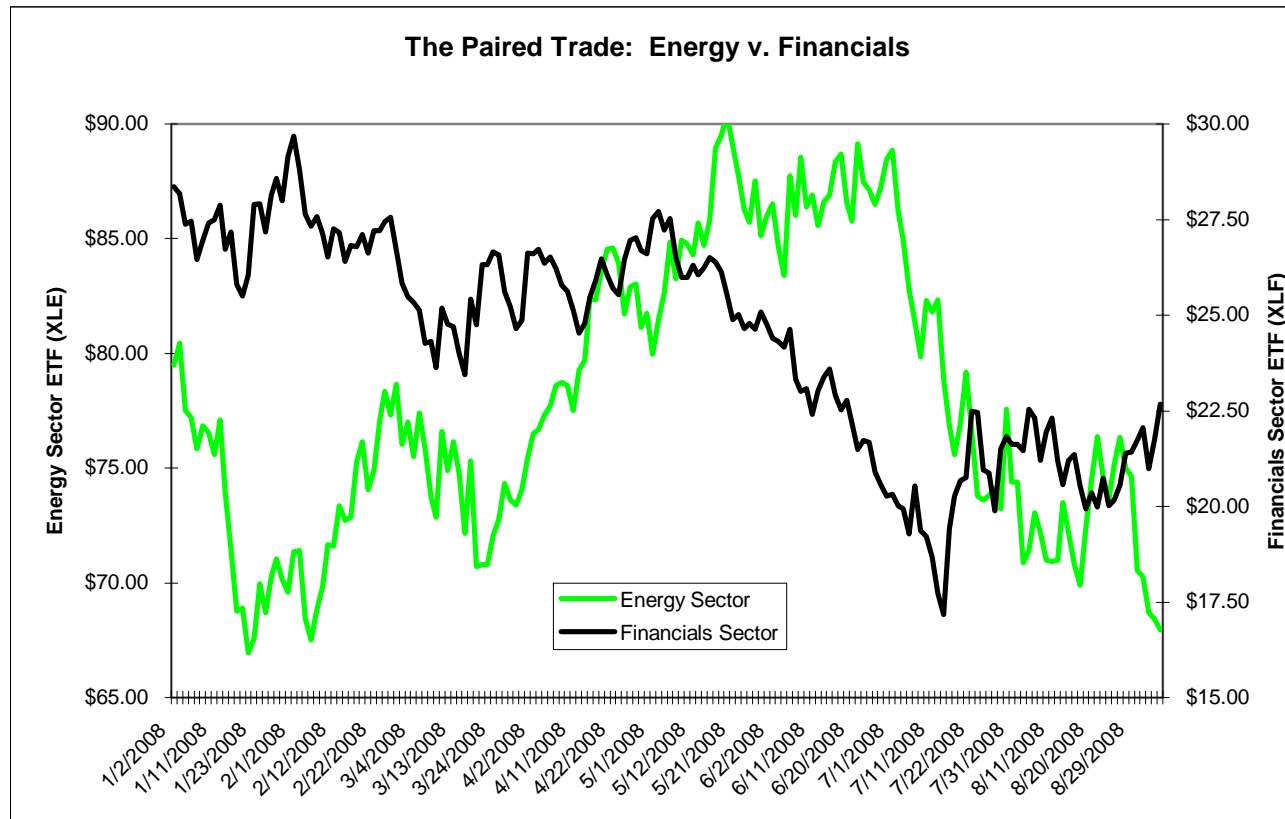
- The de-leveraging of the markets and corporations will continue for some time. That process will involve a necessary recapitalization characterized by a) a re-pricing of risk (i.e., yield spreads should remain wide); b) the issuance of fresh capital to repair/restore balance sheets; and c) the substitution of dilutive equity capital for debt. In other words, we do not anticipate that corporate actions, in the aggregate, will be focused on expanding businesses over the intermediate term.
- A recapitalization of the financial system will necessitate the issuance of senior debt obligations, many of which will involve high quality issuers and attractive yields for investors seeking stable sources of income. We, therefore, view selective allocations to high grade corporate bonds as important tactical adjustments to portfolios.
- For non tax protected accounts, we anticipate that the municipal bond market will likewise offer attractive yields, both on a nominal and taxable equivalent basis. If, as expected, effective income tax rates are higher in the future, the appeal of tax-free municipals will grow in response.
- We have not abandoned our cautiously favorable view toward equities or commodities. On the contrary, we feel that, for long term investors, such periods of uncertainty often present numerous opportunities. In our view, the markets will reward sectors selectively. For example, to the extent the world manages to avoid a recession, the current sell off in Energy represents an attractive entry point. Moreover, the current sell off is likely exacerbated by the forced liquidations of leveraged speculators (i.e., hedge funds). The fundamentals for Energy, as an example, remain quite positive.
- We also believe that globalization, on balance, creates more benefits than costs. Globalization efforts will continue to require massive investments in infrastructure. We feel it is important to remain positioned in that regard.

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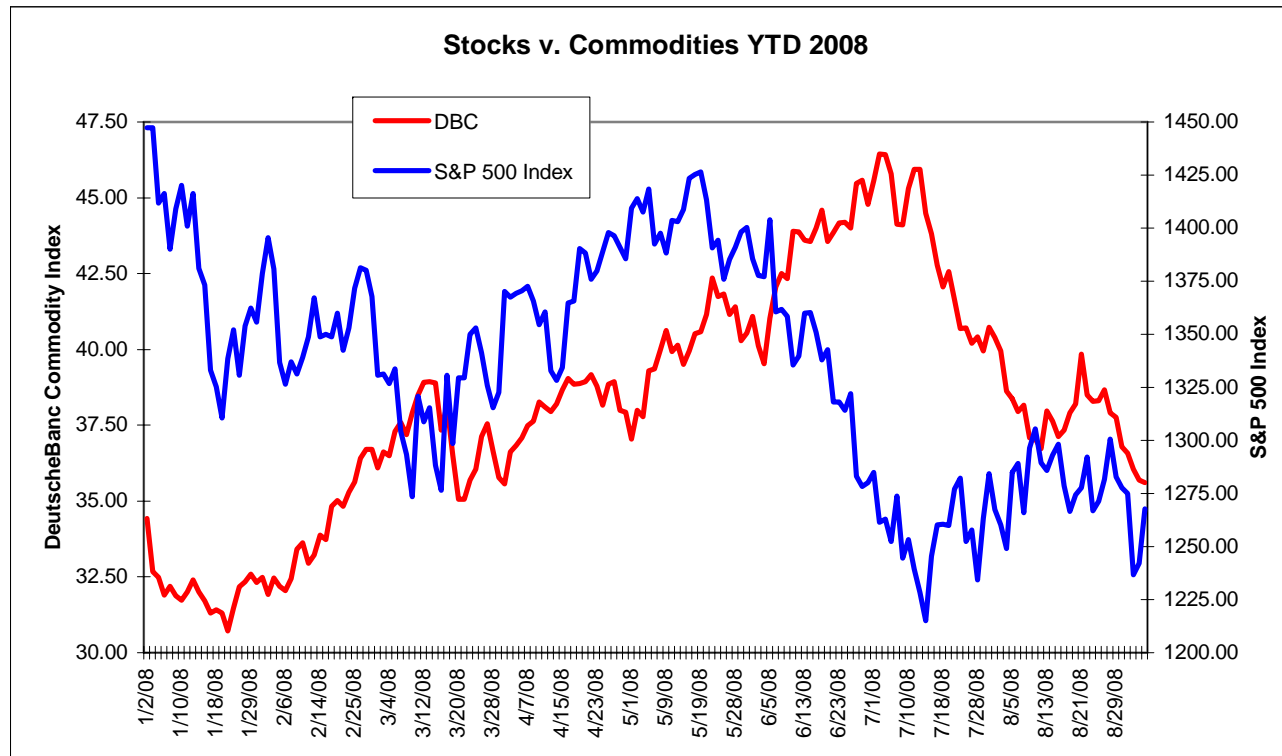
SELL FINANCIALS, BUY ENERGY – THAT WORKED WELL UNTIL JULY



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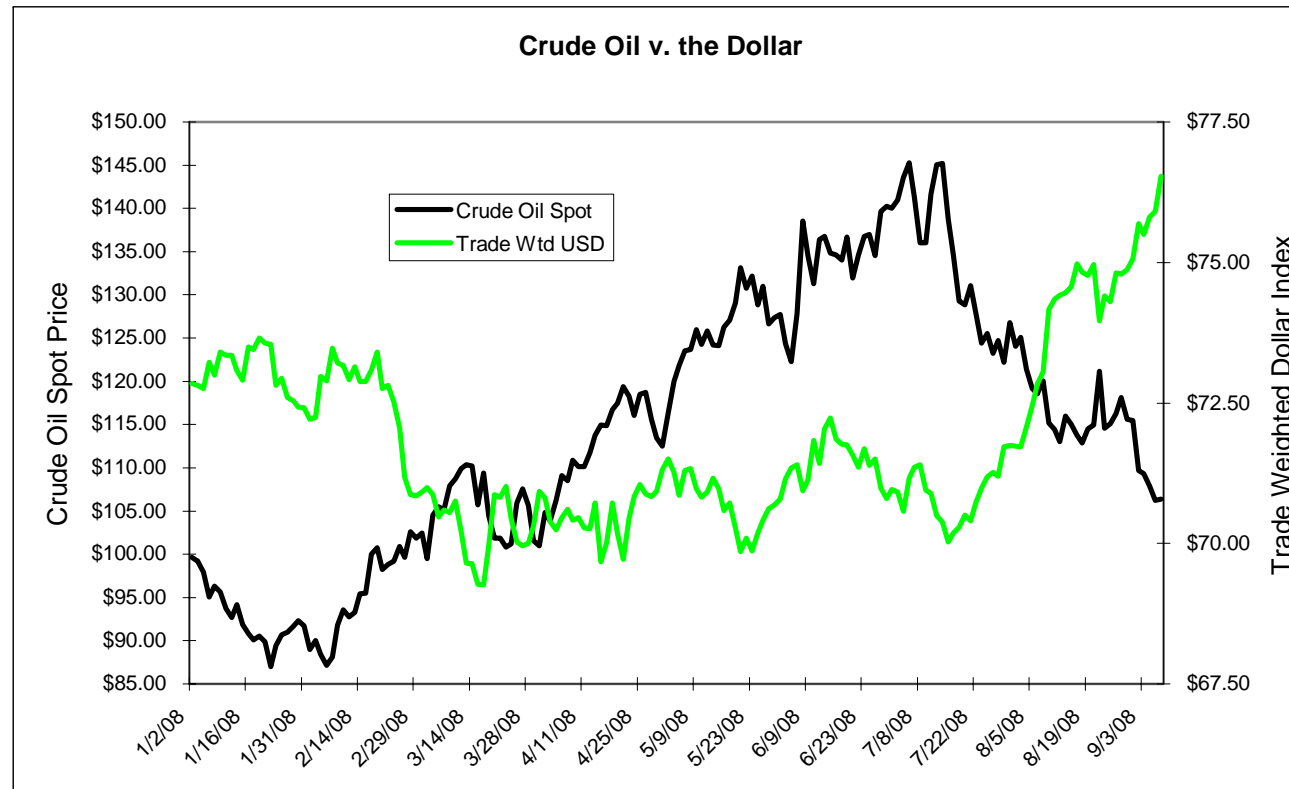
Q3: COMMODITIES SELL OFF; STOCKS FIND BOTTOM (?)



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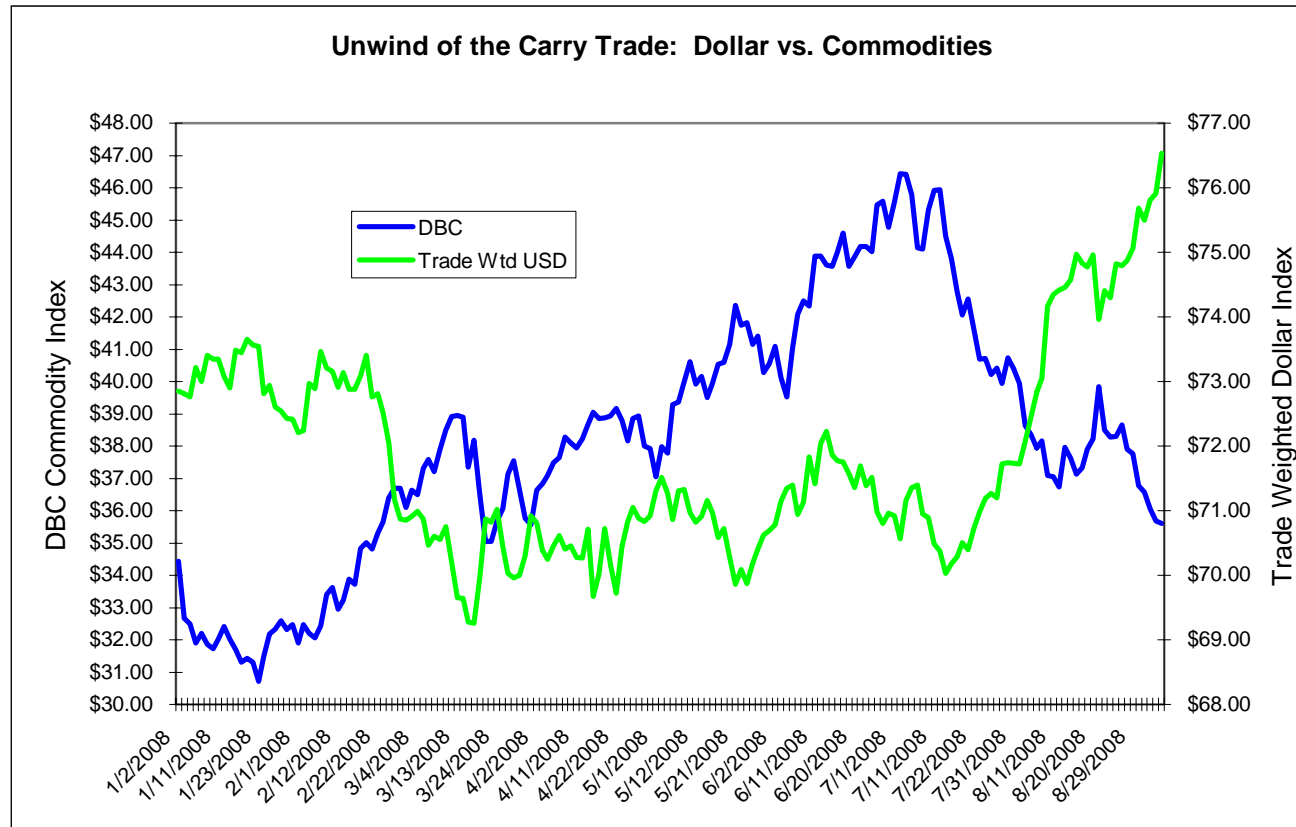
QUITE A REVERSAL: OIL FALLS WHILE THE DOLLAR RISES



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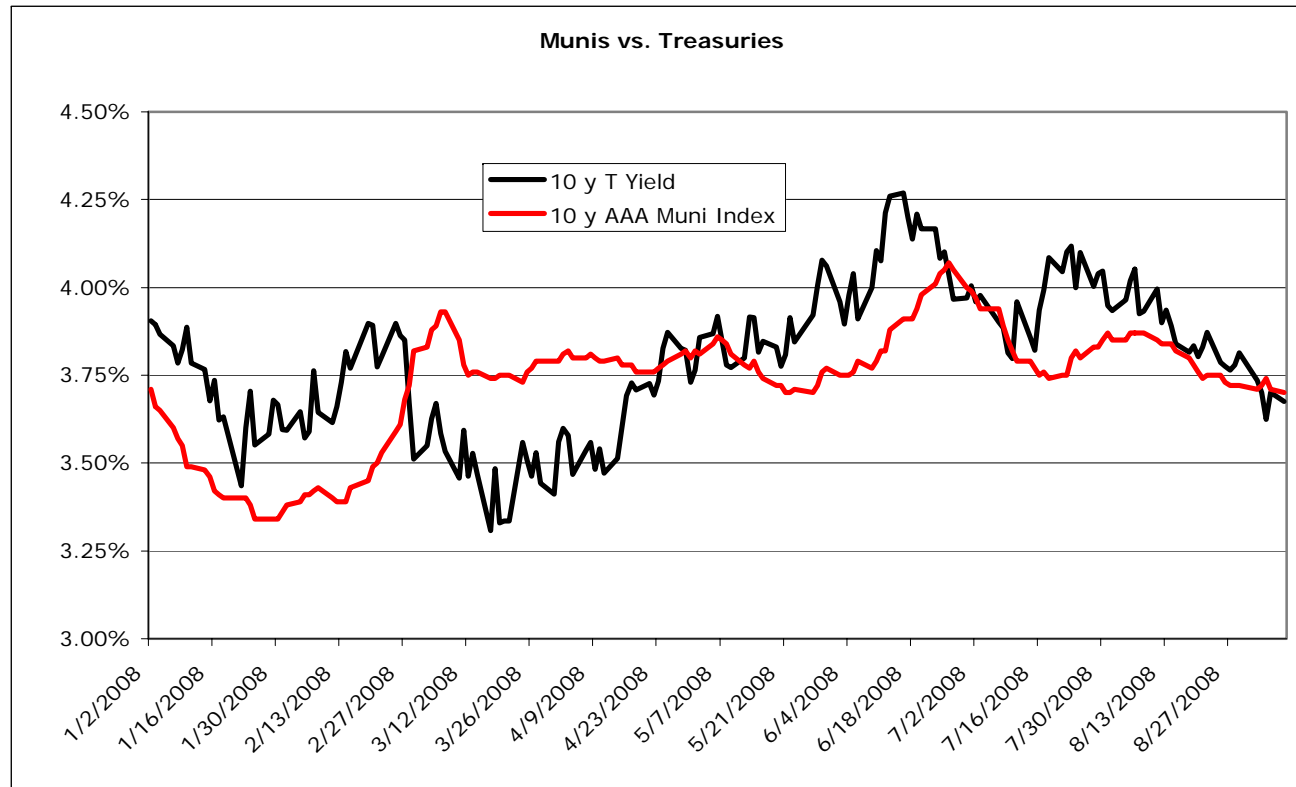
UNWIND THE "CARRY TRADE": BUY DOLLARS; SELL COMMODITIES



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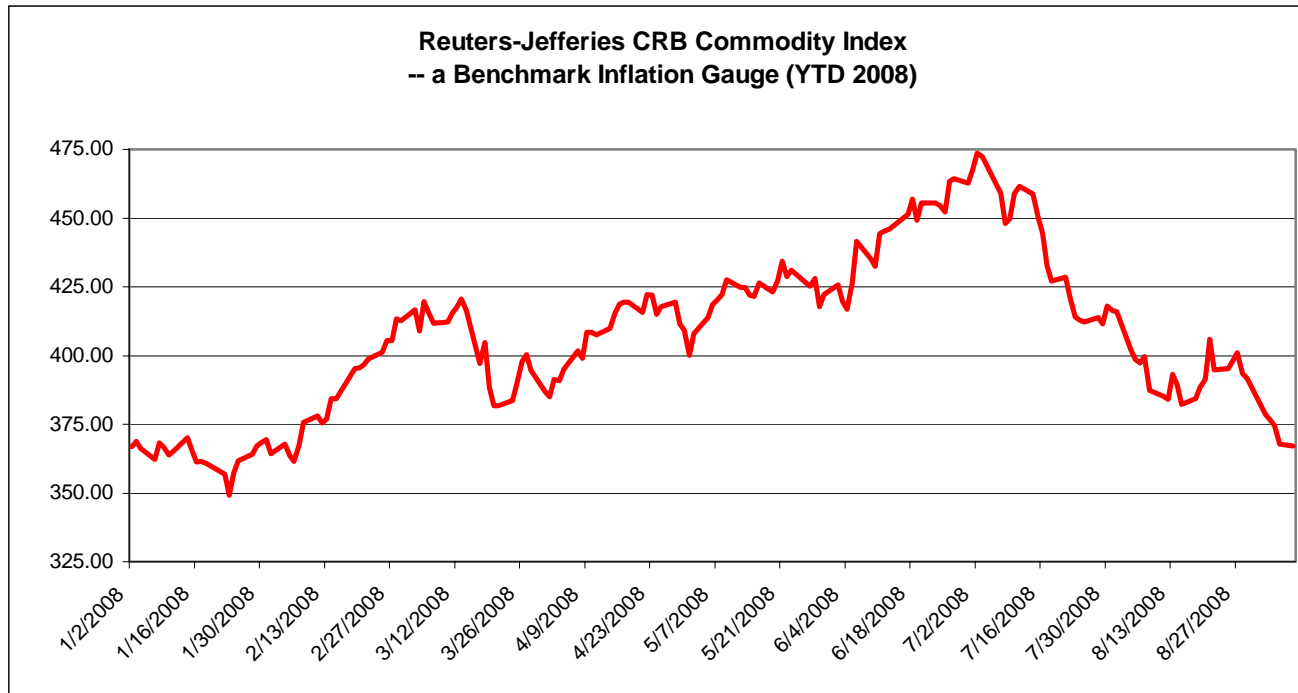
FOR TAXABLE ACCOUNTS, MUNIS LOOK ATTRACTIVE



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IS INFLATION NO LONGER A PROBLEM?



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GENERAL RECOMMENDATIONS

- Position accounts defensively with an emphasis on capital preservation. However, do not abandon the markets and also remain positioned for “the turn.” Market uncertainty is generally ripe with opportunities for long term investors. Patience will be rewarded, as will discipline.
- There is a tremendous amount of cash “sitting on the sidelines.” Eventually, these funds will be re-allocated to other asset classes. Investors will seek adequate risk premia to justify investment, but more importantly, cash will re-enter the capital markets once confidence is restored.
- We believe the sell off in Energy and other Commodities since mid-July is related, in part, to an overwhelming amount of technical selling pressure related to forced liquidations by highly leveraged hedge funds. The magnitude of the decline has rendered valuations of the stocks for many commodities producers cheap relative to their underlying fundamentals. We sense opportunity, but we acknowledge that the ongoing de-leveraging process could manifest in continued pressure on this sector.

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KEY LONG TERM INVESTMENT THEMES

Financials: selective inclusion of certain franchises with solid balance sheets and sustainable business models. We believe sentiment regarding this sector is entirely too pessimistic, but we acknowledge the high probability of more negative news and the likelihood of more failures. We feel it is important to maintain limited exposure to this sector, but we do not advocate complete avoidance.

Energy: important long term sector with occasional spurts of excessive speculation. We tend to view corrections as opportunities, but we are mindful of the lagged impact of high energy prices on economic activity. We intend to broaden our exposure upon pull backs.

Agriculture: another important long term sector. We are investigating investment opportunities along the entire “food chain”: hybrid seeds; fertilizer; equipment; processing; storage. Driven by commodities prices, this sector is also prone to occasional price spikes that render valuations unjustified. We seek short-term corrections as opportunities to accumulate exposure to this group.

Water: perhaps the most important environmental and economic issue facing the world. We believe investment in all aspects of water development -- irrigation; sanitation; delivery; purification – are vital.

Alternative Energy: until a particular type of energy source becomes prevalent, we favor a “basket” approach using diversified ETFs. However, we feel that this sector, too, represents an important long term investment allocation.

Global Infrastructure: much hinges on the continued rapid expansion and build out of emerging Asia, particularly China and India. We believe many US companies are well positioned to provide the resources necessary for the Eastern hemisphere to improve its standard of living.

Tax-Free Municipals: given US fiscal pressures, we anticipate higher tax rates in the future. High quality tax-free municipal bonds could provide a stable source of income with attractive nominal, as well as taxable equivalent, yields.

International: no economy will be immune from a global slowdown, but we feel certain countries are better positioned long-term than others. Brazil, in particular, has the potential to become both an agricultural and an energy superpower.

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