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## **Market Commentary**

Recent events in the financial markets have captured the attention of all of us. The financial stress and de-leveraging taking place throughout global markets are quickly changing our financial landscape. During the past quarter, we have witnessed household names like Lehman Brothers, AIG, Washington Mutual, and Merrill Lynch all lose their independence as a result of bankruptcy, government assistance, or shot gun marriages. While some of these outcomes are arguably self-inflicted, the collateral damage is incalculable.

Our current crisis is rooted in the credit markets. While the stock market typically makes more headlines, the credit markets dwarf the equity markets in terms of size and importance to commercial users. While usually taken for granted, many aspects of the credit markets are currently facing a situation of near paralysis. Even pristine companies, such as GE, have been forced to raise significant amounts of capital at unfavorable terms to reduce their dependency on the commercial paper market. Prices of investment-grade bonds fell approximately 7% last month while the junk bond market had its worst decline in 20 years. Currently, short-term government bonds appear to be the only fixed income assets investors are eager to own. While clearly not a quick fix, passage of the federal government's "rescue" plan is intended to ease some of these stresses and get the financial infrastructure of our economy back on its feet.

We are witnessing unprecedented events and living with unpleasant realities. The key question is, “How does one respond to the considerable market dislocations to not only survive, but to prosper?” Recklessly applied leverage is the culprit bringing many financial institutions down and the major cause of today’s crisis. Even un-leveraged, well diversified, portfolios have suffered. Investors with the proper time horizon and ability to stay the course should fare far better than over leveraged and emotional investors being “forced” to liquidate at inopportune times. Investors should make significant asset allocation decisions based upon their own circumstances, including time horizon and risk profile, as opposed to external factors that have little bearing on their long term interests and objectives. Those with such perspective should be well served looking to the future.

We appreciate your continued support and are working diligently to perform during such trying times.

Frank Sterneck

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