



October 23, 2008

On Oct. 19<sup>th</sup>, 1987, the Dow Jones Industrial Average fell 22%, a decline only 1 percentage point under the combined drop of Oct. 28 and 29, 1929. By the end of the day, the pundits were forecasting the next Great Depression, and I, having just begun my career With Merrill Lynch, imagined myself selling apples instead of mutual funds.

Alan Greenspan in his first major policy test suspended interest rate targets and flooded the financial system with cash, and within two years, the Dow regained its pre-crash high, a process that took more than 25 years after July 1929.

With this, a pattern was set. Whether facing recessions and weak recoveries in the early 1990s and 2000s the Russian default, Greenwich, Conn.-based Long-Term Capital Management LP's collapse, the specter of Y2K, or the reality of 9/11, the Greenspan Fed had a monetary response to the real or perceived crisis by lowering interest rates, printing money or both.

In each instance, some markets roared: high-yield debt in the late 1980s dot-coms a decade later and, more recently, housing and commodities. Behind each of these asset booms was an unprecedented rise in private-sector debt.

The Federal Reserve, under Ben Bernanke's watch, tried to harness this magic one more time, yet unfortunately, more money in the system doesn't necessarily mean more buyers for questionable assets.

Despite a series of radical policy responses, the credit markets seized up, as confidence in the solvency of the financial system plummeted. The crisis that began with the hit to the loan originators in 2007 and moved to global banks and brokerage firms in 2008 has only just begun to show its implications for the real economy, and result is a sea change that is likely to shape economic conditions for a generation.

Commercial banks struggle to rebuild their capital and consumers begin to save, the force available to lift the economy will weaken, and growth will continue to remain sluggish. In short, following an extended period of leverage-driven growth the United States has embarked on a de-leveraging process that is likely to keep economic growth muted for the foreseeable future.

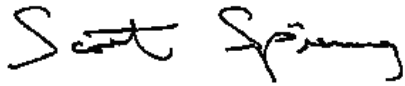
Where do we go from here? I always find it ironic that we free-market capitalists are clamoring for a massive government response now that our buddies' money machine has seized up. I'm neither endorsing nor denouncing the government bailout plan; enough ink has already been spent on that debate. Instead, now is the time to focus on how we get our respective act together to enrich an economy that has lost its leverage tail wind. If I'm right about what moves the economy in the next cycle, it's a flawed assumption that the sectors that led us into the equity bear market home builder, financials consumer discretionary will lead us back out. The de-leveraging process continues to erode the earnings prospect of those very sectors, and broadly speaking, getting

earnings to accelerate demands new business models, especially in financials. The winners over the next cycle will be the companies that are well-positioned to take advantage of new and expanding markets for innovative solutions in alternative energy, health care, and physical and technological infrastructure.

Especially since many U.S. companies, exclusive of financial, are still flush with cash, the commencement of a renewed business investment cycle that produces earnings from innovations and new technologies is much more likely than another of the credit-driven consumer-based recoveries we've learned to love. Our recent acquisitions on your behalf have met the aforementioned criteria.

The next equity bull market won't resemble the last, but it's likely to be more solidly based – at least until our exuberance eventually becomes irrational.

Sincerely,

A handwritten signature in black ink that reads "Scott Spiering". The signature is written in a cursive style with a large, sweeping initial "S".

Scott Spiering  
President