BOYER & CORPORON
WEALTH MANAGEMENT, LLC

Investment Commentary
October 1, 2008

September was possibly the most interesting month in my 27+career in the investment industry.

<u>September 3rd</u> – Ospraie Fund, a $4 billion hedge fund closes after losing 38% in 2008 on bad bets in copper and natural gas. Lehman Brothers owned a 20% stake in the Ospraie Fund.

<u>September 7th</u> – the U.S. Government placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) in a conservatorship. Shareholders are likely to lose their entire investment.

<u>September 15th</u> – Merrill Lynch announces they are going to be acquired by Bank of America for an "all stock deal worth $50 billion".

On the same day, Lehman Brothers, which began doing business in 1850 (Abraham Lincoln was not yet elected president), announced they were declaring bankruptcy.

<u>September 16th</u> – the price of oil declines to below $92 per barrel. Closing price on the last day of August was approximately $115 per barrel.

<u>September 17th</u> – in exchange for giving AIG a "bridge loan" of $85 billion, the U.S. government took a 79.9% ownership stake in the company. AIG is one of the 30 companies that comprise the Dow Jones Industrial Average.

On the same day, Gold futures increased 9% to $847 per ounce.

<u>September 18th</u> – the U.S. Government announces plans to create a government-backed vehicle similar to the Resolution Trust Corporation of 1989.

<u>September 23rd</u> – the price of oil increases over $25 per barrel to almost $130 and then closes up "only" $16.37 at $120.92.

<u>September 26th</u> – Washington Mutual becomes the largest bank failure in U.S. history as its deposits are taken over by JP Morgan.

<u>September 29th</u> – Wachovia Bank to be acquired by Citibank. Congress turned down the proposed Treasury "bailout" and the Dow Jones Industrial Average <u>declined 777 points</u> (6.98%). The S&P 500 declined 106 points (8.79%).

<u>September 30th</u> – The Dow Jones Industrial Average <u>increased 485 points</u> (4.68%) and the S&P 500 increased 58 points (5.2%), allegedly because investors are optimistic that Congress will still be able to create a plan to "rescue" our economy.

And those are just the really big items. Other items of note:

Warren Buffet to invest $5 billion for a stake in Goldman Sachs.

The Russian stock market closed one afternoon after a steep decline in stock prices during that day's trading session.

Reserve Primary Fund, a $64 billion money market fund, fell below $1 per share due to losses on Lehman Brothers debt.

The unemployment rate increased to 6.1%.

The Consumer Price Index increased 5.4% over the same period a year ago.

The seven companies that ceased to exist (or exist independently) during the first 29 days of September, represent some of the biggest financial names in this country's history. At the peak of the stock market last October, the combined market capitalization of those seven companies was **over $1.8 trillion**!! It was just 9 months ago in our January Investment Commentary that I observed that a "billion" is a large number. I pointed out that a billion inches would stretch from NYC to LA and back and have a few thousand inches left over. If my math is correct, 1.8 trillion inches would circle our planet approximately 1,140 times.

Virtual Mattress

Have you ever heard the expression "hide your money in your mattress"? On Tuesday, September 19th, the demand for the U.S. Treasury 30 day T-Bill was so great the effective interest rate was almost 0% (yes, zero percent). On that day, investors were willing to receive no return on their investment just for the assurance that they would get their money back in 30 days….in other words, they stuck their money in a virtual mattress.

As we are posting this month's Investment Commentary, the Senate is close to voting on a new bill to stabilize the credit markets. With the presidential election only 5 weeks away, this is obviously not going to be just an economic issue….it already is very much a political issue. Any bill that passes will be loaded down with all sorts of conditions for various political reasons.

Stabilizing the credit markets, as important as that may seem (and it doesn't seem very important to many, many hard working Americans), does not solve the problem. If it is successful (and we are not even sure how they will define success), it will only deal with the symptom. The problem is the same problem that has been going on for over a year….continued home foreclosures.

In the month of August, there were 303,879 new home foreclosures. That was a 26% increase over August, 2007. It was an 11% increase just over the month of July (272,171 foreclosures in July). On average there have been about 250,000 home foreclosures every month of this year. This causes new properties to be thrown on the market to be sold. The

S&P/Case Shiller Index of home prices dropped 16.3% from July 2007 to July 2008.

Until foreclosures begin to decline significantly, we see no end in sight. We reiterate that this will likely be the worst holiday shopping season in a long, long time. On a positive note, if you have been reading my monthly Investment Commentaries, you know that I count real estate “for sale” signs while I ride my bicycle. At the end of September, the number of “for sale” signs declined by 3. There are now 22 homes for sale. What is interesting to me is that there have been very few new for sale signs in the past several months. It has just taken a long time for the old ones to begin to sell.

A few other positive notes:

Futures contracts for oil, which traded at $115 per barrel at the end of August, finished September at $100 per barrel….and I filled up my tank yesterday for $3.29 per gallon, down from $3.52 last month (although I saw a sign on the way to work today for $3.12 per gallon). This should help the American consumer who is otherwise strapped for funds.

After the markets closed on Monday, September 29th, the equity markets were down about 29% from their peak in October, 2007. We are starting to see some good values in the stock market and may make some occasional small investments soon. We still have an unusually high allocation to cash and short-term CD’s.

Stock market bottoms tend to be accompanied by magazine covers illustrating the dangers of investing. Here are 3 recent ones:

<u>Business Week, September 29th</u> – Picture of the New York Stock Exchange at the bottom and large letters asking, “IS IT SAFE YET?”.

<u>Business Week, October 6th</u> – Large letters stating “WHERE TO INVEST YOUR MONEY” and over the word “INVEST” is a box with the word “STASH” on it. Across the top of the page it says, “Stocks Bonds T-Bills Mattress?”

<u>Forbes, October 13th</u> - (how is it we receive a magazine dated the 13th on September 29th?) - Big, bold letters asking, “WHAT’S NEXT?”. Superimposed on the cover is a jagged red line crossing the page from left to right. Hanging from one point of the line is a man whose wife appears to be hanging and holding on to his ankle and their child appears at the bottom hanging onto her mother’s ankles.

When we are all hanging on for dear life, market bottoms are not far away.