BRIAN D. LOWDER, INC.

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WHAT IS GOING ON – IS A RECOVERY POSSIBLE?

Lenders, borrowers, Wall Street executives, and our Congressmen have all failed together. Lenders ignored traditional lending guidelines in pursuit of greater sales (loans), borrowers happily accepted easy loan qualifications and ignored financial discipline, Wall Street firms packaged these dubious loans and resold them as "quality bond" investments to investors around the world and our lawmakers couldn't resist political gamesmanship by prolonging a remedy to place our financial system back on track. Investors panicked at the possibility of bank failures and losing their life savings. The financial markets around the world reacted quickly, selling intensified, and prices plummeted. How did all of this happen so quickly?

Simply stated, banks and other lending institutions receive funds from their depositors and they can also borrow money at very low-interest rates from Federal agencies. Lenders then loan these funds at higher interest rates to businesses and home buyers – thus making a profit on the spread between the cost of acquiring these funds and the rate charged to borrowers. Lenders are required to provide a margin of safety by maintaining a certain level of "capital" or reserve to support or provide a cushion against any bad loans. As a simple example, lenders must maintain $1 of capital (reserve) for every $10 of loans made. This is where the problem started.

For individuals, a home loan or mortgage is a liability – a debt we pledge to repay. From a lender's perspective, a loan is an asset on their balance sheet – an investment made to a borrower. A lender's liability is the money they receive (and must repay) from you and I in the form of deposits (savings and checking accounts, certificates of deposit, etc.) or funds lenders borrow at below-market rates from Federal agencies. In both cases, these funds must be returned on demand or upon maturity.

After several years of making loans to questionable borrowers combined with falling real estate values that serve as collateral for the loans, approximately 10% of these home loans are in default. To further complicate matters, these loans have been bundled together in a pool, sliced up and sold to investors as safe income-earning bonds. Examples of investors who bought portions of these loan pools are: the lenders themselves, pension funds, government agencies (Fannie Mae), individual IRA investors, state and county governments, corporations, foreign investors and many other sources. These loans are similar to a highly contagious virus. The virus (bad loans) has mutated and spread itself throughout the world.

If you are a lender or an investment bank and are subject to rules that require a minimum capital or reserve account be maintained at all times, and part or all of your reserve is invested in these "toxic" mortgages, the reserve is no longer worth or valued at the original amount. The lender must increase its reserve or capital account by either selling (getting rid of) the bad loans or seeking new funds from an outside investor, or a combination of both.

The problem is no one wants to buy the toxic mortgages. Without willing buyers, the value or prices of these mortgages begin to plummet. Consequently, the depressed mortgage values further reduces the value of the bank's reserve or capital account. The first casualty was Lehman Brothers – forced to file bankruptcy after decades of investment banking.

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Other banks tried to merge in a desperate attempt to avoid bankruptcy; however for some (IndyMac Bank), it was too late. Banks, insurance companies and other financial service companies were desperate to avoid the same fate and time was running out. They had to find new sources of capital to bolster their balance sheets. When lenders seek new capital from investors (Middle East, Warren Buffet, and other large investors), they are forced to pay 10% or higher costs in the form of special preferred dividends.

Another problem is the lenders must now earn the 10% to pay their new investors and make a profit to stay in business. Worse, the lenders are not lending their new investor capital because they need the new cash to build up their reserve or capital account. If lenders are not lending, they can't earn a sufficient profit to pay their investors and stay in business. If lenders are not lending, borrowers can't get new loans to purchase (or refinance) a home, buy a car, pay for college tuition, etc. and businesses can't get loans to buy equipment, build new products, etc.

Now the problem is spreading quickly. Bad loans impact lender's reserve requirements, and force lenders to either sell their loans at a loss or seek new investors who charge more than the interest lenders can earn on new loans. Most of the new cash infusion is being used to meet their capital (reserve) requirements and not for new loans. Consequently, businesses and individuals can't find new loans or credit, the stock market is falling, investors are losing money on their investment accounts and economic activity begins to slow. It is a vicious cycle that has grown larger than anyone imagined.

This scenario was unfolding quickly and had become a much larger problem than anyone had imagined. A solution was needed immediately and this is the primary reason why it became necessary to seek help, a bailout, from the biggest investor in the world – the Federal Government.

Financial Market Overview

During the two weeks prior to the end of the third quarter, stocks were down nearly 10%, down over 20% since the beginning of the year, and down a stunning 30% since the peak in October 2007. Gold and oil are down over 30% this year. International stocks fared even worse. Thus far, stock markets returns around the world are simply ugly.

Most stock mutual fund categories suffered similar losses compared to the market averages. Small-company stocks suffered smaller losses than large companies. And value-oriented stock funds outperformed growth stocks.

The following chart displays sample returns of various asset categories during the third quarter and 2008 calendar year through September 30th:

2008 3rd Qtr	**Year-To-Date '08**	**Index Return *(includes dividends reinvested)***
(3.7%)	**(22.2%)**	**Dow Jones Industrial Average**
(8.4%)	**(23.6%)**	**Standard & Poor's 500 Index**
(8.7%)	**(18.7%)**	**DJ Wilshire 5000 (Broad Market)**
(14.0%)	**(23.0%)**	**Large-company stock-Growth**
(8.0%)	**(23.8%)**	**Large-company stock-Value**
(17.1%)	**(24.9%)**	**Mid-Size Stocks – Growth**
(9.2%)	**(23.3%)**	**Mid-Size Stocks – Value**
(10.4%)	**(23.6%)**	**Small-company stock- Growth**
(2.0%)	**(16.4%)**	**Small-company stock- Value**
(20.0%)	**(29.5%)**	**International (excludes U.S.)**
(27.0%)	**(38.1%)**	**Emerging Markets**
+ 1.9%	**(10.1%)**	**Real Estate Investment Trusts**
		Fixed Income
+ 1.5%	**+ 2.1%**	**Short-term U.S. Treasury *(includes appreciation)***
+ 0.4%	**+ 2.2%**	**Intermediate U.S. Treasury *(includes appreciation)***
		Alternative Investment Category
(30.6%)	**(21.8%)**	**Gold**
(6.5%)	**+ 2.1%**	**Managed Futures**

Economic Outlook – Is the Bailout a Good Decision and Will It Work?

One observation is certain: Everyone can find something in the Troubled Asset Relief Program (bailout plan) to dislike. Taxpayers are being ripped off to save Wall Street; the plan is socialism; technically, there are several ways that appear to be a

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better way to implement the bailout; and the plan gives unbelievably sweeping powers to the government not seen since the Great Depression. The bottom line is simple: Lenders are in jeopardy of failing because they are unable to raise capital and they are refusing to make new loans. Without intervention, the eventual outcome is a contracting economy that will lead to recession and possibly a depression. Insolvency cannot be cured with more loans, no matter how easy the terms.

Essentially, the $700 billion dollar plan will permit our government to purchase impaired mortgage-related assets from financial firms – giving them cash to replace the toxic debts that have put them in danger of collapse and prevented them from making new loans. Ironically, the problem now is the opposite of what put lenders in jeopardy in the first place – individuals and business cannot find and secure credit or loans. If the banking and lending system is not brought back to financial stability quickly and the normal (prudent) use of credit (loans) is not re-established, the global economy and the financial markets will spiral downward.

We believe the probability of success from restarting the lending process and bringing the housing crisis to an end is far higher than the gloom and doom scenarios you are hearing, feeling and reading about. How good or bad the Troubled Asset Relief Program (TARP) or bailout plan will turn out to be as an "investment" will be determined by how quickly the relief funds are deployed. Whether or not taxpayers will receive a good or bad deal will be determined in large part by the accuracy or fairness of the prices that the government will pay financial institutions for their troubled assets. The $700 billion "expenditure" can be recovered in whole or in part depending upon the prices paid for the troubled loans and how many of the loans will return some portion of the price paid in the future. Only a very small portion of the total loans will be worthless while others will return some portion of the original loan amounts.

The offer to purchase troubled assets from various financial institutions comes with conditions. The prices are determined by the government with an oversight committee, taxpayers would share any gains for participating companies (lenders who agree to sell bad loans to the government) via stock or warrants and executives' compensation would be capped for any company agreeing to participate in the bailout program.

Unwinding the credit boom of the past ten years will take some time. In addition, the press will continue to seek and report scenarios that **could possibly** happen. Our economy has already slowed considerably and the impact of lost jobs from recent mergers and failures has yet to be reflected in the unemployment numbers. The upcoming holiday season will likely be one of the worst for retail sales in decades. Expect more bad news, but note that the stock market is already anticipating this expectation and continues to decline.

We recommend using the current market weakness to re-establish our recommended stock allocations carefully and strategically over the next three to six months. We began reducing stocks in our clients' portfolios two years ago and reduced stock positions even further in July 2007. Those reductions have helped our clients weather this storm better than the overall market. Now, we recommend focusing on the future and not on negative news articles suggesting what could possibly happen. When investors have the most fear, it is usually near the best buying opportunity.

Our historical and current recommendations are worth repeating: 1) Date – 1999. Resist buying technology stocks – the prices are absurd and don't reflect reality. In March 2000, the pin finally found the technology bubble and a three-year decline ensued. 2) Date – Sept. 2004. Real estate is overvalued. "*This statement will be very difficult for homeowners, mortgage brokers and real estate investors to accept. Similarly, investors refused to believe stocks were overvalued in the late 1990's and would rather believe the past trend will continue indefinitely. If our readers will carefully review the support and rationale for this position and leave their emotions and rear-view mirror perspective behind, they too will be able to understand why real estate has performed so well over the past seven years and why real property values will likely hold steady at best and gradually weaken in the years ahead*". Today, the real estate market is a mess. 3) Date – Today, Oct. 2008. Current stock prices are undervalued and reflect fear of continued and permanent financial meltdown. Over the next six months, clients should re-establish their normal allocation (percentage of their total portfolio invested in stocks) to stocks. It doesn't seem or feel like the right course of action, but we believe it is – the exact timing of declines and recoveries are never predictable.

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Lastly, the outcome of Presidential election will be known within the next few weeks. Expect more market volatility and uncertainty. Worse yet, expect to read and hear about what **could possibly** happen if one party or the other is elected. Finally, retail sales during Christmas will likely be pitiful – one of the worst comparisons in decades.

Simply stated, stock investors cannot achieve successful investment performance over 5-year rolling time periods by day-trading or timing the market. At best, results will reflect the same success as a coin toss. Now is not the time to sell equities.

COMPANY ANNOUNCEMENTS

We are pleased to announce that financial advisor Clint Winey has passed the third and final level of the Chartered Financial Analyst® exam. Congratulations to Clint.

Thank you for your continued trust and confidence. We will work hard to maintain that trust and confidence throughout your life changes and market transitions.

Contact Us

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Best regards

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