MARKET COMMENTARY I – SEPTEMBER 2008

Ray Gadbois, CFP®
Index Financial Advisors LLC

Dear Clients,

As you may know, the turmoil in the equity markets continues today, with ongoing issues relating to the housing, mortgage and credit crisis affecting our financial services industry. Over the weekend, there were several related announcements, including the filing of Chapter 11 bankruptcy protection by Lehman Brothers, the acquisition of Merrill Lynch by Bank of America, and the search for additional capital by AIG. I have been watching the markets very closely, which are down 2-3% today. I will continue to follow these developments closely, including the results of the Federal Reserve meeting tomorrow. I believe the Treasury and Fed will continue to be active in helping to support the stability of our financial system. They have already done a lot, including interest rate cuts, loans to financial institutions, the sale of Bear Sterns, the takeover of Fannie Mae and Freddie Mac, etc. But I believe we will see more in the future, including potential rate cuts now that oil prices have come way down.

As I have said before, I don't recommend selling in this kind of situation. Although the turmoil and market volatility is worse than most people expected a year ago, I continue to remind myself and all of my clients to stay the course and avoid any panic selling. We have a solid strategy in place, which includes a long term time horizon (5 - 10 years) and diversification across asset classes (cash, bonds, large caps, small caps, international, etc.), industries and individual companies. The equity markets could continue to get worse in the short run. But I believe we are close to a bottom and the long term direction from here will be positive. Unfortunately, we will have to wait a while longer for the recovery to begin.

Please feel free to call me if you would like to discuss the markets or your specific situation. In the meantime, I will continue to watch developments closely and will check in with all of you at the end of the quarter to review the current status and results for your portfolio. Thanks for your patience during this tough year in the markets...

MARKET COMMENTARY II – SEPTEMBER 2008

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Dear Clients,

I thought I should provide an update and some commentary on the current financial crisis and the proposed $700 billion bailout plan currently being debated by Congress.

First, I have to comment on the major news stories and market gyrations we saw last week. As we anticipated over the prior weekend, Lehman Brothers filed for Chapter 11 bankruptcy protection, Merrill Lynch was acquired by Bank of America, and the Federal government had to make an $85 billion loan to AIG to keep it from going under and taking a lot of other institutions with them. By Wednesday morning, the equity markets had dropped close to 10% on all of this bad news and the anticipation that things could get a lot worse. Then came some aggressive action by the Federal Reserve and Treasury to address this financial crisis. These actions included restrictions on short sellers in the US and UK, a coordinated global effort to add liquidity to the market for interbank funds, and most importantly a proposal to create something similar to the RTC (Resolution Trust Corporation) which was used to deal with the savings and loan crisis years ago. Other big news included the announcement of a government guarantee for money market funds, the acquisition of Lehman Brothers by Barclay's, and the agreement by Goldman Sachs and Morgan Stanley to be regulated as commercial banks. By the end of the week, the markets had recovered all of the week's losses and ended the week flat despite all of the huge up and down days in between.

This week also started off badly as Congress began to question and debate the details of the proposed bailout, which would set up an entity like the RTC to buy up to $700 billion of distressed assets from the banks and other financial institutions. The markets were down on Monday on the concern that it might not happen. Traders and money managers were glued to their TV sets this week, watching the Congressional hearings on this massive $700 billion plan. We will have to see what happens in the next couple of days. I believe some sort of compromise plan will be completed in the very near future, hopefully by the end of the week. And I believe that a plans needs to be completed in order to prevent a major financial collapse and a deep recession. For those of you who are interested, here is my analysis of the underlying problem and why I believe we need this plan to fix it. I won't get into the political issues or the regulatory issues, which also need to be addressed at some point.

1. The root cause of this financial crisis is the large number of risky mortgages which were issued to unqualified borrowers over the past few years and then sold off to investment banks and other institutions around the world. In simple terms, some of these mortgages are not being paid off in full and so the mortgage investments are worth a lot less, maybe only 75 cents on the original dollar invested. I would call this the "hold to maturity" value of the mortgages.

2. Banks and other financial institutions must follow a recently adopted accounting standard which requires all investment assets to be "marked to market". This means that they need to write down the value of their investments to the current market price and recognize the loss immediately. In normally functioning markets, this makes a lot of sense. But in a rapidly declining market which is in panic mode, this rule can create a nasty downward spiral because it causes more selling. See below.

3. After the banks and other financial institutions record the paper losses on these investments, they now have lower equity on the books and are required to raise additional capital or sell off some of their investments in order to meet the capital ratio or leverage ratio requirements.

4. Unfortunately, no one wants to give them more capital because of the huge risks involved. And no one wants to buy their mortgage assets because of the uncertainty in the housing market. Investors don't really know how much these mortgage investments are really worth in the long run. Maybe they are really only worth 50 cents on the dollar. And there are lots of banks trying to sell these assets and very few

buyers willing to take the risk. So the market price continues to drop, maybe down to 20 cents on the dollar. Which leads you back to #2 above with banks writing down their assets even further and having to raise additional capital by selling more assets. And so on and so on until the institution is bankrupt or gets acquired or borrows money from the US government.

5. The only way to fix this problem is to create a well functioning market for these investments with rational pricing that reflects the long term value of these mortgage investments. Unfortunately, that is where the Federal government has to step in, with a $700 billion fund to buy these investments at a reasonably discounted price. The goal should be to hold these assets for a few years or until the housing market recovers and then sell them back to real investors at the purchase price or better. In the long run, this government financed "hedge fund" should break even or potentially make money for taxpayers. Even if it loses money, the final cost will be nowhere near $700 billion.

Again I believe this plan is necessary to deal with the current financial crisis and prevent further damage to the global economy. And I am optimistic that the plan will pass, no doubt after lots of political wrangling and compromise. This will be a huge step forward and I would expect the markets to recover some of the recent losses caused by this financial crisis. But there is still a chance that the plan will be delayed or will not be approved by the politicians. Stay tuned for a final decision. In the meantime, I will continue to recommend that you hold to your long term, diversified, investment strategy and resist the temptation to play this market - which is completely unpredictable and wildly volatile.

As always, feel free to call me if you would like to discuss any of this news, the markets, or your individual portfolio strategy...

MARKET COMMENTARY III – SEPTEMBER 2008

Ray Gadbois, CFP®
Index Financial Advisors LLC

Dear Clients,

I'll try to keep this one short. Like you, I am very upset with today's news from Washington and Wall Street. According to recent comments from our politicians in Washington, a bipartisan deal to rescue our financial markets and economy was ready to be approved by the House and Senate. Unfortunately, the House of Representatives failed to pass the bill this afternoon by a margin of only 13 votes. I was very surprised and extremely disappointed. As you know, I believe our financial system is now in a potential crisis situation and this rescue package is necessary to get our credit markets moving again and to stabilize our economy.

The equity markets reacted with the same level of disappointment, dropping by 7-8% in one day. Hopefully, this will send a strong message to the politicians that this is a serious economic issue. And hopefully the House will continue working on this problem and pass a bill, along with the Senate, later this week. Yes, I still have some hope that our politicians will do the right thing and that the equity markets will see some recovery in the short term. But more importantly, I continue to believe that we will see a recovery in the long run, and that we should avoid panic selling right now. Because most individual investors tend to buy and sell at exactly the wrong time, one of my jobs as your financial advisor is to encourage you to maintain a long term strategy and resist trying to predict short term moves in the market. By the way, I look forward to the day when the markets are way up and I have to remind all of you to resist the urge to buy more. Remember the tech stock bubble? The level of panic we are experiencing now feels like the opposite of the "irrational exuberance" we experienced back then. But we will need some time and help from Washington to get back to normal...

In the next couple of weeks, I will be working on your quarterly reports and will contact you to review the impact of recent events on your portfolio. In the meantime, please feel free to call me if you would like to discuss the news or your specific situation.