



Tarpley & Underwood

Financial Advisors, LLC

October 22, 2008

Mr. & Mrs. John Doe
123 Peachtree Street
Atlanta, GA 30033

Dear John and Kelly,

Please find enclosed your reports for the third quarter of 2008. We trust this commentary will provide you with some perspective for the economic environment in which we are currently planning and investing.

Quarterly Commentary

This has been one of the more difficult quarterly pieces to produce because of the speed with which changes have been occurring within the financial markets and related political spheres. As soon as we are ready to document our analysis and opinion, the situation seems to have a new element introduced to it. We trust that as this piece is written (Monday October 20), we have enough stability in the news cycle to be able to make some timely comments on what has occurred.

What to Do?

Normally, we are wary of the comment – “it’s different this time,” because the cycle of boom and bust in financial markets is arguably timeless and never ending. But there is something “different” this time and that difference is the level of global government intervention which has been introduced to the financial markets. This involvement has been massive and will only increase over the next days, weeks, months, and years as new and already announced programs begin to take hold. With this new market element introduced, we believe no one is in a position to say when the markets will begin to recover. But history tells us that a recovery will happen. It is not a matter of if; it’s just a matter of when.

With that perspective, we believe it is helpful to consider a disciplined decision making protocol to use in making portfolio decisions in light of the market volatility that has occurred and which may continue to occur.

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The following protocol forms the foundation for our evaluation of individual client situations:

1. Is a client's portfolio diversified? Are there any individual stock or sector exposures which are introducing unnecessary risk to a client's portfolio?
2. Does the client have enough cash and/or low volatility (non stock) assets to wait out the stock market's decline and recovery?
3. Is the client's overall allocation consistent with the client's long term financial objectives?
4. If the answers to questions 1-3 are appropriate, then a client should be comfortable with holding steady in the face of the volatility we are experiencing. If they are not comfortable, a logical response would be to remove oneself, as much as possible, from the incessant coverage coming from the news and financial media. Don't check market prices and values everyday. Traders and speculators have that level of focus, investors should not. Don't listen to Jim Cramer. Don't watch CNBC.

It is in the context of this protocol that we have addressed questions about client accounts. It is our opinion, that the governmental actions that have been taken are necessary and appropriate and will address some of the uncertainty (see next section). But it will take time and there will be continued volatility, however history shows that a disciplined approach has a better likelihood of achieving long term success than an emotion driven reaction.

So What Has Been Going On In the Equity Markets?

The recent volatility in the equity markets has been nothing short of unprecedented. In our opinion, the volatility has been caused by a perfect storm of uncertainty around three primary areas: the housing markets, financial credit crisis and concerns about the economy.

The housing market weakness has been in play for well over a year now, depending on what measure you use. The reduction in home values and the corresponding impact on the investments that were related to housing values were by most measure the catalyst which began the current stock market correction. What was unknown and unforeseen was the extent to which these real estate or mortgage related investments were intertwined within the balance sheets of the various large and small firms in the nations financial service's sector. It was these relationships which exposed the weaknesses in many of these financial firms and in startling quick fashion brought some of these firms to the brink of and in the case of Lehman Brothers into bankruptcy. What was particularly concerning during this process was the lack of transparency in knowing how bad off the financial services sector was. The resulting impact was that the firms that were left standing became unwilling to lend to each other or to businesses and individuals. This frozen state of affairs resulted in the now infamous credit crisis.



It was the concern about this credit crisis that started the rapid movement of the stock markets down both in the US and globally. The resulting fear and concern was exacerbated by the inability of the political powers, until recently, to organize themselves to present a coordinated policy response to the fear and concern in the credit and equity markets. When history is written on this period of time, two events may very well be considered turning points: 1. the \$700 billion rescue package approved by Congress and signed into law by President Bush and 2. The coordinated response of the G-7 countries to address the concerns apparent in the global banking system. Where we are today is that it appears that the various actions that have been taken have made helpful strides in providing some certainty and stability to first the credit market and then the stock market.

Where these events leave us is with the last source of volatility – the prospects of economic weakness. It is apparent that the economy, probably at a global level, is in a slowdown, almost certainly a recession which began late last year. The lingering concern is how long and how deep will the recession be? What it probably will not be is a repeat of the Great Depression. Although for a period of time, the stock market was pricing in the probability of a depression scenario.

Where does this leave the stock market? It seems all the pieces are in place to build a foundation under the market. The real estate market while it is far from healed has started the healing process. The finance ministers and central bankers of all the major global economies have demonstrated the resolve to take the actions necessary to correct the financial sector issues. That leaves the economy to heal itself. While it is almost certain that the economic headlines into next year (growth, unemployment, etc.) will be negative, the US companies outside of real estate and financials have strong balance sheets and can weather the pending economic downturn. At some point we can expect the general economy to show signs of improvement. As always, the stock market will reflect the anticipation of that recovery well before the reported numbers indicate the recovery is at hand. Consequently, we believe there is enough of a risk premium built into the stock markets at this time to maintain appropriate exposure to the stock market.

Portfolio Actions We Have Taken

While we have held steady with the appropriate level of equity exposure for client accounts, we have made two across the board portfolio adjustments which we wish to discuss.

Foreign Bonds

For a period of time, we have held an allocation in the Pimco Developing Local Markets fund. This allocation provided us with a hedge against the falling value of the US dollar against global currencies. This has been an appropriate posture given the loss in value of the US dollar in anticipation of future US budget deficits which must be funded with US Treasuries. However, with the recent dislocation in the global markets and related currencies, the US dollar has recovered against some currencies and we have no clarity



about when the long term trend of US dollar weakness will return and have decided to liquidate that position and use it for appropriate reallocation.

Commodities

We have recently sold our client commodity positions. The commodity positions were designed to be a hedge against inflation. With the current global slowdown appearing to continue, this hedge is required. Consequently, we have decided to sell these positions and reallocate as appropriate.

Why Are Bonds Performing So Poorly?

During the period in which stocks have been performing so poorly, diversified high quality bond positions have also performed relatively poorly. It's important to examine why this has occurred.

There is an extreme flight to quality with huge demand for U.S. Treasury securities—especially Treasury bills. **The demand has been so great that investors are willing to accept near 0% returns on short-term Treasury bills.** This demand is at the expense of virtually anything else.

Some portions of the credit markets, such as tax-exempt bonds, have been hurt by the lack of buyers. This has meant higher borrowing costs for tax-exempt bond issuers. There may also be some worry about reduced tax and other revenues in an economic downturn harming the credits and triggering increased defaults. We believe that default losses could be higher than in a typical recession but that the market has more than priced that risk. However, with such poor liquidity it is hard to know how tax-exempt bonds will perform over the short term. Longer term we believe they are now priced somewhat attractively with yields over 4%.

The corporate bond market is also extremely stressed with liquidity drying up in favor of Treasuries. Investment-grade corporate bonds had their worst month ever in September and their worst quarter ever. With the possibility of a worse-than-normal recession, defaults could be higher than in a normal down cycle. So some shift down in pricing makes sense. However, again, the flight to Treasuries has sucked demand out of the corporate bond market and this has led to an imbalance of buyers and sellers, which has driven prices sharply lower (for example an ETF that tracks an intermediate, investment-grade corporate bond index was down 6.8%). We believe this will pass and that corporate bonds will perform well if we look out past this crisis period. The lowest-quality portion of the investment-grade bond universe is yielding close to 8%. Longer-term return potential looks reasonably attractive and could result in capturing the yield or perhaps better, but some short-term risk remains.



A Note on Account Values

The enclosed reports are valued as of September 30, 2008. There has been noticeable volatility since the date these reports were prepared. For an up to date pricing of your accounts and information on recent portfolio changes, that information can be found online at www.schwaballiance.com. This website is the dedicated website for Schwab Institutional clients. If you have difficulty accessing your information, please do not hesitate to contact us for assistance.

As another source for information, we encourage you to use our online resources – www.tufa.com – as a source for relevant information. We are using the *TUFA Views* section of our website as a place to post news items and commentary during this period of volatility and will continue to do so as long as it is helpful.

In closing, we are in the midst of an extremely trying period. We believe it is important to continue to focus on those actions that are controllable and not those (such as the markets) which are not. Specifically, we would encourage you and your family to consider if you are comfortable with the following controllable elements of your financial life:

- Revisit your long term financial planning objectives. Make sure they are realistic and consistent with your values and desires. If they have changed, please let us know so that we can determine if any changes are required to your asset allocation.
- Make sure your overall wealth management needs are appropriately addressed:
 - Make sure wills, powers of attorney, and living wills are up to date.
 - Make sure your risk management and family emergency plans are adequate and well documented.
 - Make sure your personal and family records are in good order.
 - Make sure your charitable giving plans are in place and functional.

We thank you for the opportunity to assist you with any or all of these issues during these momentous times. If there is anything we can do or any conversation we can have that would be helpful, we welcome the opportunity to have that interaction.

Tarpley & Underwood Financial Advisors, LLC

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