

Dear Clients, Colleagues and Friends,

These past few months have been pretty trying for a lot of folks and the media has been carrying rather dismal reports on the status of our economy and the state of both financial and real estate markets. Some investors have feared opening their account statements and have been preparing for the worst. However, the sky is not falling; at least with respect to your investments.

To place all of this in a broader frame of reference, both foreign and domestic stock markets have been in a virtual free fall for over a year. Foreign markets have been battered even worse than those here in the U.S. For example, if you had a hypothetical \$1,000 value last September, you would have lost in the range of \$200 to \$500.

By comparison, our typical clients have seen a decline of less than \$40!

We realize you might have thought that things must have been worse. Well, they haven't been. We have not been caught off-guard, nor were we ill-prepared for this turmoil.



*A SPECIAL LETTER FROM RS CRUM
Fall 2008*



Reflecting On These Historic Events

March 2006: The construction of new housing was about to hit its highest level ever. However, two thirds of these properties were being purchased by speculators who were risking very little of their own money, while financing nearly 100% of their purchase. They were all hoping to profit by quickly spinning them back out at yet higher prices. Greed was rampant. This would mark the end of the U. S. residential construction bubble.

March 2007: It would take about one more year before we got our first red alert. Home-prices were beginning to wobble after escalating at an unprecedented rate of over 20% per year for six consecutive years. This rate of increase over such a lengthy period had never occurred before in our Nation's financial history.

August 2007: Lenders were just beginning to sober up. Suddenly, the potential for loss was given a higher level of concern in the loan scrutiny. Shortly, bank credit would tighten and then reverse itself after twenty consecutive years of increases.

October 2007: Domestic and International stock markets weaken and then began what we now see has been one long year of loss.

December 2007: The employment cycle was slowing and getting ready to reverse itself. Job loss and higher levels of unemployment rates began to make headlines.

March 2008: Highly regarded investment bank, Bear Stearns, crashed into insolvency. The American credit crisis was officially underway.

September 2008: Fannie Mae and Freddie Mac, two of the largest (formerly) blue chip financial companies in the world crashed and burned. Next up was Lehman Brothers. They're gone too. Then, venerable Merrill Lynch, running out of money as well, was forced into a shot-gun marriage; they were gobbled up by Bank of America. Days later our largest insurance company, AIG, became history as well.

Each of these entities has borne prodigious reputations and carried instant name recognition. Prior to this, each would be regarded as a bluest of blue-chip stocks. Yet now, each and every one will disappear from our American financial landscape for ever more.

The three titans of the American auto industry (GM, Ford & Chrysler) are reeling and begging congress for government subsidies and loans. The probability is that, at most, only one of them will survive.



The entire domestic airline industry is a disaster as well and we are already into double digits in bank closures.

Housing prices and personal equity have diminished anywhere from 25% to 40%. Stock markets have fallen from 25% to 60% on a world wide basis.

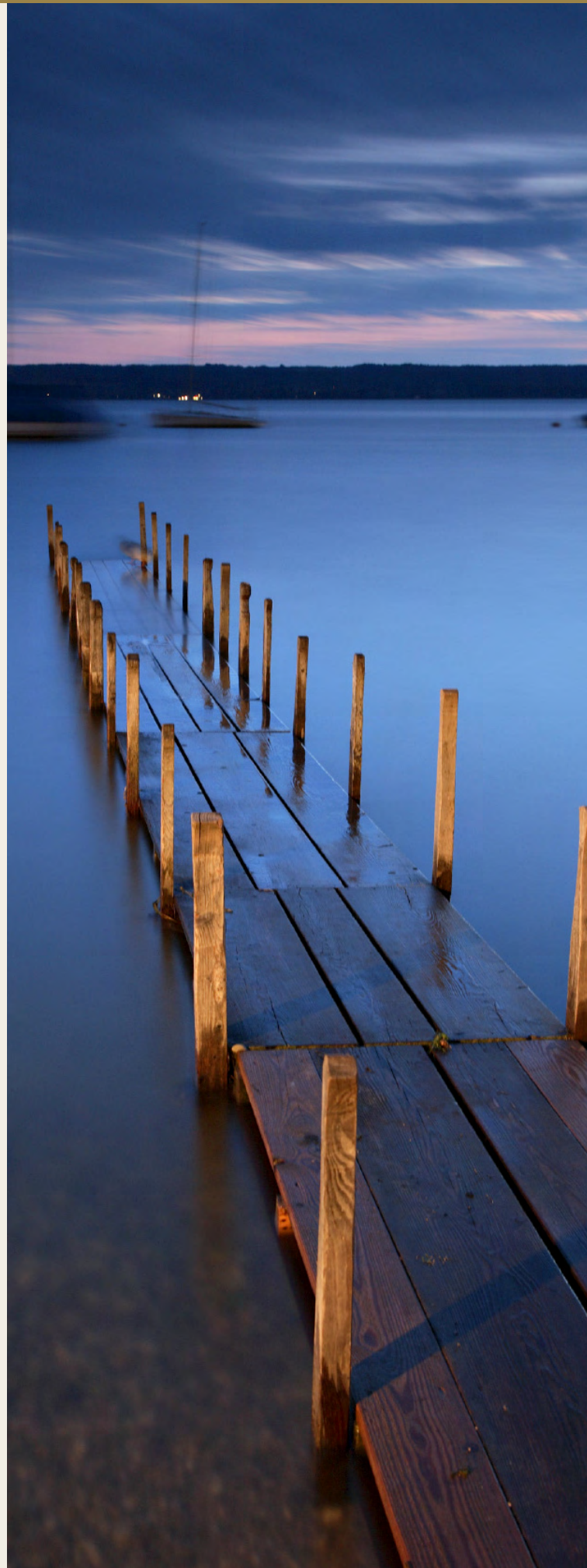
Understandably, people are feeling a lot poorer and particularly unsettled.

Damage Control

We have not altered our view first expressed to you over two years ago. We told you then that there would be a housing “shakeout” that would have a far more profound economic influence than anyone realized. We felt as well that it would spill over and find its way into the world of credit. Bankers and lenders everywhere would begin to think twice about their underlying safety standards and reassess their approach to risk and new exposure. This would be the onset of a period of credit constriction and profound de-leveraging.

We also told you on numerous occasions that this malaise would not be confined to just our domestic economy, that sooner or later it would affect business conditions on a world wide basis.

We initiated our investment damage control in the fourth quarter of 2006 and completed our defensive re-positioning by April of 2007. Although history will show that we were about six months too early, these moves have now had a profound effect on reducing your volatility and loss during this lengthy market plunge.



Is There A Silver Lining?

There may be yet more shoes to drop and this whole process may take a bit longer to play itself out. However, for the first time in quite a stretch we are beginning to see some possibilities present themselves. All of a sudden some enhanced yields at greatly reduced prices are beginning to surface and, although it might still be a trifle early, we are eager to initiate some further exploration.

Bad markets become the seasoning ground for making money for you in the future. First, however, we must continue to be both patient and protective. As you see from the information in this letter and by looking at your own personal statements, we are well on our way toward accomplishing the protective aspect to this equation.

Sometimes, though, patience presents the greater test. The \$64 question always revolves around timing. When should one become less defensive? When will things be bottoming out? There are never any green lights or go signals flashed, but whenever this negativity does end recoveries are usually startling and swift. Frequently, markets rebound and recoup a quarter to a third of their total losses in a mere matter of days.

We do not need perfect timing here. We will benefit automatically from our present positioning. What we need to do is to maintain ourselves in this ready position. We have safe-harbored substantial cash and liquid reserves in each and every one of your accounts to accelerate this process as this time draws nearer.

There will be better and more profitable days ahead. Thank you for your patience.

Many of you tuned into our first live Web Cast last week so you may have already heard some of this message. We do thank you for your participation and hope it proved to be worthy use of your time.

For those of you who were not able to make it, the session was taped and will be posted to our web site in short order.

Thank you all once again.

Yours very truly,

R S CRUM INC.

