



October 12th, 2008

Here is our newsletter for the 3rd Quarter of 2008.

Our Portfolios

Reporting on our portfolios performance in the 3rd quarter seems almost trivial, as the movement in the market over the first eight days of the 4th quarter has been overwhelming. I will first discuss the 3rd quarter and then overview what has happened since then.

Third Quarter: Our most aggressive All Equity portfolio composite was down 12.0% during the quarter compared to a loss of 10.5% for the benchmark. Our more conservative Equity-Tilted portfolios were down 9.9% vs. a loss of 7.7% for the benchmark. Our underperformance compared to our benchmarks was disappointing as we have structured our portfolios to do well in a market downturn with around 25% cash and our long-short fund. Because of this, all our portfolios have beaten their benchmarks significantly over the last year and longer time periods.

Three factors contributed to our underperformance for the third quarter. First, some of our funds simply did poorly. During their recent conference calls with advisors, a couple of our managers admitted to buying several of the beaten down financial companies such as AIG and Merrill Lynch as their stock prices declined. They have at least admitted their mistakes. Second, our portfolio is more heavily weighted to foreign stocks vs. US stocks compared to our benchmark. This overweight to foreign stocks hurt as the foreign markets declined more than the US markets, particularly over the last month. Our benchmark weighting is 4 to 1 US to foreign stocks while our current allocation is closer to 2 to 1.

And last, but not least, our fixed income funds performed poorly compared to our benchmark the Lehman Aggregate Bond index. This is perhaps the biggest story in the markets due to the crisis in the fixed income markets. The extreme demand for the safety of U.S. Treasury securities resulted in investment-grade corporate bonds having their worst month ever in September, and worst quarter ever. All our bond managers are underweight the treasury market due to their view that, over the long run, better opportunities present themselves in the corporate and mortgage markets. Another factor is we have significant positions in the foreign bond and cash markets, which the Lehman Aggregate has no position. With the rally in the dollar over the last month or so, this has hurt our foreign currency positions. Even the municipal bond market has been hit hard. Default rates for municipal bonds have historically

been less than 0.1% over the long run, but concern about the bond insurers have pushed yields up to around 5%.

The Market Crash: There is no more accurate way to describe the first eight trading days of the 4th quarter from October 1st thru the 10th. Our equity benchmark went down 22.9%. Last week was the worst for the US stock market since 1933. The bond market was just as bad. The foreign markets have been worst of all. While the US stock market has fallen about 42% the last year, the developed overseas markets have fallen 50% and the emerging markets have fallen 55%.

Fortunately our relative performance has significantly improved. Several moves on our part have helped. First, we bought a bear fund (SDS) for some of our clients on September 18th and sold out of it on October 10th for a nice profit. Second, we sold one half of our position in the Pimco Developing Local Markets fund late in the quarter and Oakmark Select last week. All of these moves have helped cushion the blow and have sent all my clients updated performance figures.

Market Outlook

While there are still significant risks in the markets today, the prospects for long-term returns in the stock market over the next ten years is better now than it has been for at least 18 years. While it is difficult, if not impossible to know what will happen in the next few months, valuations by almost any measure have gone from unattractive to attractive in a very short time. There will continue to be bad news about the economy, with a recession almost guaranteed at this point, and maybe a rough one. House prices will continue to fall and foreclosures will continue to rise. More banks and other business will declare bankruptcy. We simply believe the market has most of this already priced in.

As a result we will put our cash positions back into the markets, but doing so over several months. As the markets are pretty much in panic mode, with many now talking about the next Great Depression, the markets could go down another 10% overnight. Not only is the stock market reasonably valued, the bond market also should provide us better returns going forward. As of October 3rd, Dan Fuss with Loomis Sayles reported his fund, which is a high-quality bond fund, has a yield-to-maturity of 10.2%. The high-yield market is yielding around 16%. Even with historically high default rates, these yields could provide us equity-type returns for some time.

Business Continuity Plan

Part of the estate planning process I provide for my clients is making sure family and other interests are taken care of if a sudden death or disability occurs. In an effort to make sure my clients are taken care of in the event I become unable to do so, I have reached agreements with two financial planning firms to serve my clients.

Paul Lemon is the principal of Integrated Financial Planning, P.C. located in Durango, Colorado. You can get an overview of Paul's business at www.paullemon.com. I have also agreed to serve Paul's clients in the event he is unable to do so.

Phil Luccock is the principal of Financially Speaking, Inc. in Englewood, Colorado. His website at www.FinanciallySpeakingInc.com provides an overview of his firm. I have known Paul and Phil for many years and have full confidence in their ability to serve my clients needs. Both are fee-only advisors, which mean they have chosen to only serve their clients, not any banks, brokers or insurance companies. My clients are free to use Phil, Paul or anyone else of their choosing.

Tax Planning Strategies

The downturn in the markets over the last year present several strategies we can take advantage before the year ends. In our portfolios we plan on harvesting some losses by selling some funds before the end of the year and reinvesting down the road. We have already sold Oakmark Select for this and other reasons. When this is done, wash sale rules need to be understood to enable your losses to be qualified by the IRS.

It may also be a good time to consider other strategies based upon your situation. If your taxable income is going to be lower this year than in the past and going forward, a Roth IRA conversion could be a great idea. Some of your traditional IRA would be transferred into your Roth IRA, creating taxable income for the amount transferred. If your marginal tax bracket is lower this year, you will pay tax on the transfer but at a lower rate. All the funds transferred into the Roth IRA will then never be subject to taxation during accumulation or at distribution.

Other strategies at year end include accelerating or deferring tax payments and other deductible expenses. One risk with all these strategies is what changes may be in store for us when the new administration takes office. The Democrats have proposed higher tax rates for capital gains and income tax for higher income taxpayers. The Republicans are proposing extending the Bush tax cuts but may not have any choice to abandon that plan recognizing the government's fiscal problems.

How TD Ameritrade Protects Your Accounts

The following has been taken from a communication from TD Ameritrade where most of our client funds are held.

- SIPC Protection – TD AMERITRADE, Inc. is a member of the Securities Investor Protection Corporation (SIPC). The securities in your account are protected up to \$500,000, of which \$100,000 may be applied to cash. *For additional information, please visit www.sipc.org, and see the enclosed Account Protection Sheet.*
- Excess SIPC Coverage – In addition to SIPC protection, TD AMERITRADE, Inc. also provides coverage through London insurers up to an aggregate of \$150 million per customer (\$250 million for all customers), of which \$900,000 may be applied to cash. *Please see the enclosed Evidence of Excess SIPC Coverage for additional details.*
- FDIC Coverage – TD Bank USA, N.A., Money Market Deposit Accounts (MMDA) are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$100,000. Individual

Retirement Accounts are insured for up to \$250,000. *Please see www.fdic.gov for more information.*

- **Business Continuity Plan** – In the event of power outages, natural disasters or other significant events, TD AMERITRADE has created a detailed Business Continuity Plan in order to maintain business operations. *See the enclosed Business Continuity Plan Statement for more information.*
- **Asset Protection Guarantee** – if you lose cash or securities from your account due to unauthorized activity, TD AMERITRADE will reimburse you for the cash or shares of securities you lost. TD AMERITRADE is promising you this protection, which adds to the provisions that already govern your account, in case unauthorized activity ever occurs and TD AMERITRADE determines it was through no fault of your own. TD AMERITRADE can guarantee this protection if you work with them in three ways:
 1. Keep your account information secure and confidential — don't share it, because sharing your UserID, password, PIN or account number with other people means you authorize them to take action in your account.
 2. Frequently check your account and report any suspicious or unauthorized activity to us immediately.
 3. Take the steps we request if your account is ever compromised and cooperate with our investigation.

Thank you for your continued trust and your business. As always, we appreciate your referrals.

Sincerely,

Stan Johnson, CFP(R)
Comprehensive Financial, Inc.
Registered Investment Advisor