First Rate®

Market Review - October 2008

The U.S. Economy

The Bureau of Economic Analysis (BEA) released information at the end of October that the U.S. Gross Domestic Product in the third quarter of 2008 decreased at an annual rate of 0.3% compared to a second quarter increase of 2.8%. According to the BEA, the decrease in real GDP in the 3rd quarter was due to negative contributions from personal consumption expenditures, residential fixed investment, equipment and software with some positive offset from government spending, exports, inventory investment and nonresidential structures. In addition to massive problems in the financial sector there have been significant declines in retail sales and manufacturing. A high level of unemployment continues to be reported by the Bureau of Labor Statistics. The non-farm payroll fell by 240,000 in October 2008 and the unemployment rate has risen from 6.1% to 6.5%. The unemployment rate has not been this high since March 1994. Employment has fallen by 1.2 million in the past year with over half of the losses occurring in the past three months. October job losses were significant in manufacturing, construction and service industries, while there were job gains in health care and mining.

The global equity markets continued to experience significant declines in October 2008 as credit problems impacted a broad range of sectors. The U.S. Broad market indices declined around (18%) while international indices such as the MSCI EAFE and Emerging Markets declined over (20%) and (27%) respectively. The U.S. dollar continued to strengthen against gold, the British pound and the Euro while weakening against the Japanese yen.

In October 2008, the U.S. bond market performance was negative in all but government issues as spreads widened. This was reflected in the Lehman Aggregate index return for investment grade issues with a (2.36%) return. Negative performance in high yield portfolios was amplified with a return of (15.9%) during the month. Ordinarily, fixed income is a good diversifier relative to equities. However, current financial sector issues and tight liquidity impact both stocks and bonds in a negative way. As in the prior month, municipal issues posted negative performance as local governments continue to face serious problems with their revenue base.

In September 2008 Market Review, we introduced the TED ratio as an important liquidity indicator and one measure that could be used to assess the impact of the U.S. government's success in increasing interbank liquidity. The TED ratio is the spread between 3 month U.S. treasury bills and Eurodollar futures as measured by the London Interbank Offered Rate or Libor. Historically, the TED spread has hovered around 50 basis points between the two rates. In the past few months, we have experienced a period of tight liquidity and by the end of September 2008, the TED ratio was at 315 basis points. On October 10th, the TED ratio continued to widen to 460 basis points. However, in the past few weeks there has been some ease of interbank credit and as of November 6, 2008, the TED ratio has narrowed to 200 basis points.

After approval of the government measure known as the Troubled Asset Relief Program or TARP on October 3, 2008, the Treasury modified their strategy for utilizing the funds in this $700 billion dollar bailout package. The initial proposed strategy for TARP was to purchase the toxic securities held by financial institutions to improve credit liquidity. The first phase of the TARP strategy is now to purchase up to $250 billion of senior preferred debt in qualified banks and savings associations. At the end of October, over forty firms have preliminary approval to receive an injection of government capital and the balance of additional firms will be determined in mid-November 2008. There are currently discussions considering an extension of the capital purchase program to other financial institutions such as insurance companies. It is interesting that even automakers have gone to the government requesting a TARP infusion.

Performance in Recent Market Cycles (Jan 07– Oct 08)

The broad U.S. market indices plus the NASDAQ composite and S&P 500 posted significant negative returns in October 2008 ranging from (16.80%) to (18.36%). In the bear market from November 2007 through October 2008, these indices declined from (36.09%) to (39.80%).

In October 2008, the major global indices posted negative performance ranging from (16.01%) for the Far East index to (27.37%) for the emerging markets. The continued decline in October resulted in these indices returning from (40.63%) for G7 to (56.35%) for Emerging Markets in the bear market from November 2007 through October 2008.

Recent U.S. Market Cycles (Jan 07—Oct 08)

				Jan07-Oct08
Key U.S. Market Indices	Jan 07-Oct 07	2007	Nov 07– Oct 08	Unannualized
NASDAQ Composite	18.35	9.78	(39.80)	(28.75)
MSCI-US Broad	11.21	5.59	(36.27)	(29.13)
Russell 3000	10.77	5.14	(36.61)	(29.78)
PPCA Total	10.23	7.05	(37.46)	(31.06)
Morningstar U.S.	11.50	5.92	(36.33)	(29.01)
S&P 500	10.87	5.49	(36.09)	(29.15)

Recent Global Market Cycles (Jan 07—Oct 08)

				Jan 07-Oct 08
Key Global Market Indices	Jan 07-Oct 07	2007	Nov 07-Oct 08	Unannualized
World Index	15.17	7.09	(42.36)	(33.62)
EAFE	17.60	8.62	(47.22)	(37.93)
G7	13.16	5.51	(40.63)	(32.81)
Emerging Markets	49.50	39.39	(56.35)	(34.74)

Relative Strength of the U.S. Dollar

The U.S. dollar strengthened significantly in October 2008 relative to gold as the price of gold went down 17.38%. On a year-to-date, basis the price of gold in terms of the U.S. dollar is now down 12.64%.

Price Change of Gold Relative to USD	
2007	31.59%
YTD 08	(12.64%)
OCT-08	(17.38%)

The next table provides key spot exchange rates for 1 U.S. dollar versus nine key developed country currencies. During October 2008 and on a year-to-date basis, the U.S. dollar strengthened in all key currencies considered except the Japanese yen and the Hong Kong dollar.

The next table translates the changes in spot exchange rates from the first table into FX percent returns. During October 2008 the U.S. dollar strengthened 21.14% against the Australian dollar and weakened (7.21%) against the Japanese yen. On a year-to-date basis, the U.S. dollar strengthened in seven of the nine key currencies shown.

Exchange Rate Tables 1 USD buying reference currency

Reference Currency	12/31/06	12/31/07	06/30/08	9/30/08	10/31/08
EUR Europe	0.7579	0.6783	0.6330	0.6921	0.7660
GBP Great Britain	0.5111	0.5008	0.5011	0.5502	0.6068
JPY Japan	119.06	112.27	106.07	105.86	98.23
CHF Swiss	1.2182	1.1269	1.0180	1.0967	1.1316
CAD Canada	1.1643	0.9804	1.0101	1.0378	1.2083
AUD Australia	1.2686	1.1444	1.0400	1.2179	1.4753
NZD New Zealand	1.4194	1.2942	1.3134	1.4684	1.6918
HKD Hong Kong	7.7775	7.8046	7.8003	7.7700	7.7519
SGD Singapore	1.5334	1.4459	1.3624	1.4302	1.4718

FX Return of $1 USD Relative to Reference Currency

Reference Currency	2007	YTD 2008	OCT-08
EUR Europe	(10.50%)	12.93%	10.68%
GBP Great Britain	(2.00%)	21.16%	10.29%
JPY Japan	(5.70%)	(12.50%)	(7.21%)
CHF Swiss	(7.49%)	0.41%	3.18%
CAD Canada	(15.79%)	23.24%	16.43%
AUD Australia	(9.78%)	28.91%	21.14%
NZD New Zealand	(8.83%)	30.73%	15.21%
HKD Hong Kong	0.35%	(0.67%)	(0.23%)
SGD Singapore	(5.71%)	1.79%	2.91%

U.S. Bond Performance

During October 2008, U.S. treasury yields fell over the short to intermediate maturity range under 10 years, with a very significant 90 basis point decline at the one month maturity level. The highest increase in the longer maturity range was 31 basis points for 20 year issues. On a year-to-date basis, U.S. treasury yields fell the most over the short to intermediate range with a significant decline of (2.90%) for 3 month maturity issues. Only issues with 20 year maturities had a yield increase on a year-to-date basis.

TREASURY YIELDS

Maturity	1 Mo	3 Mos	1 Yr	5 Yrs	10 Yrs	20 Yrs	30 Yrs
9/30/2008	1.02	0.92	1.78	2.98	3.85	4.43	4.31
10/31/2008	0.12	0.46	1.34	2.80	4.01	4.74	4.35
Change	(0.90)	(0.46)	(0.44)	(0.18)	0.16	0.31	0.04
12/31/2007	2.76	3.36	3.34	3.45	4.04	4.50	4.45
10/31/2008	0.12	0.46	1.34	2.80	4.01	4.74	4.35
Change	(2.64)	(2.90)	(2.00)	(0.65)	(0.03)	0.24	(0.10)

In October 2008, the Lehman Global Aggregate and U.S. Aggregate returned (3.69%) and (2.36%), respectively. Also in October 2008, the Lehman Municipal Bond and High Yield Bond indices returned (1.02%) and (15.90%), respectively.

On a year-to-date basis, the Lehman Global Aggregate and U.S. Aggregate returned (4.11%) and (1.74%), respectively. Also on a year-to-date basis, the Lehman Municipal Bond and High Yield indices returned (4.18%) and (24.38%), respectively.

Bond Indices - Total Return		
Index	**OCT 2008**	**YTD08**
Lehman Global Aggregate	(3.69)	(4.11)
Lehman U. S. Aggregate	(2.36)	(1.74)
Lehman Municipal Bond	(1.02)	(4.18)
Lehman U. S. Treasury 1-3 Year	0.96	4.81
Lehman High Yield Bond	(15.90)	(24.38)

U.S. Stock Market

In October 2008, the NASDAQ composite posted a negative return of (17.73%). Also during October, the four broad U.S. stock indices had negative returns ranging from (17.53%) to (18.36%). On a year-to-date basis, the NASDAQ composite index was down (35.11%). During this period, the four broad U.S. stock indices fell over a range from (32.88%) to (33.94%).

All domestic style indices posted significant losses in October 2008. In this market, the relative style rankings by performance was not consistent across index families. Generally the most significant losses were in the mid cap and small cap styles while large cap performance was somewhat higher.

On a year-to-date basis, all style and capitalization ranges continued to have negative performance. Overall, small cap growth and core posted the lowest performance across cap ranges while the least negative performance was in large cap value.

The S&P 500 return based on price change was (16.94%) in October 2008. All economic sectors had significant negative performance during the month. The top three performing sectors were: Telecommunications Services (9.53%), Consumer Staples (11.08%) and Health Care (11.81%). The bottom three performing sectors were: Financials (22.74%), Materials (22.18%) and Consumer Discretionary (19.27%).

Broad Market Indices & the NASDAQ Comp	OCT 2008	YTD 2008
NASDAQ Comp	(17.73)	(35.11)
MSCI-U.S. Broad	(17.65)	(32.88)
Russell 3000	(17.74)	(33.21)
PPCA Total	(18.36)	(33.94)
Morningstar	(17.53)	(32.96)

S & P 500 Sector Performance Price Change %		
Sector	**OCT 2008**	**YTD 2008**
Energy	(18.01)	(33.47)
Materials	(22.18)	(39.90)
Industrials	(18.93)	(37.07)
Consumer Discretionary	(19.27)	(31.17)
Consumer Staples	(11.08)	(15.31)
Health Care	(11.81)	(23.69)
Financials	(22.74)	(46.66)
Information Technology	(17.81)	(37.46)
Telecommunication Svcs	(9.53)	(38.17)
Utilities	(11.87)	(31.49)
S&P 500	(16.94)	(34.03)

On a year-to-date basis, the S&P 500 price return was (34.03%). Again, all sectors posted significant negative sector performance. The top three performing sectors were: Consumer Staples (15.31%), Health Care (23.69%) and Consumer Discretionary (31.17%). The bottom three performing sectors were: Financials (46.66%), Materials (39.90%) and Telecommunications Services (38.17%).

Small-Cap Stocks	OCT 2008	YTD 2008
S & P 600	(20.15)	(26.44)
Russell 2000	(20.80)	(29.02)
Growth	(21.70)	(33.68)
Value	(19.98)	(24.27)
Morningstar	(21.15)	(31.19)
Growth	(21.70)	(36.11)
Value	(19.58)	(26.04)
Core	(30.86)	(22.15)
PPCA	(22.39)	(34.30)
Growth	(27.22)	(46.53)
Value	(20.79)	(26.73)
Core	(20.55)	(34.42)

Mid-Cap Stocks	OCT 2008	YTD 2008
S & P 400	(21.74)	(32.97)
Morningstar	(21.79)	(36.86)
Growth	(22.04)	(41.19)
Value	(20.66)	(33.19)
Core	(22.62)	(35.90)
PPCA	(22.24)	(38.35)
Growth	(22.19)	(44.78)
Value	(22.73)	(34.48)
Core	(21.37)	(34.64)

Large-Cap Stocks	OCT 2008	YTD 2008
S & P 500	(16.80)	(32.84)
Russell 1000	(17.46)	(33.55)
Growth	(17.61)	(34.31)
Value	(17.31)	(32.90)
Morningstar	(16.05)	(32.08)
Growth	(18.03)	(35.83)
Value	(13.99)	(32.68)
Core	(16.05)	(28.43)
PPCA	(16.26)	(32.28)
Growth	(17.56)	(40.37)
Value	(15.98)	(30.12)
Core	(14.66)	(21.95)

Global Markets

For the month of October 2008, the MSCI EAFE index returned (20.24%). The top three EAFE country performers were: Switzerland (12.27%), Japan (14.79%) and Finland (17.69%). The bottom three EAFE country performers were: Austria (37.34%), Greece (36.73%) and Belgium (36.56%).

On a year-to-date basis, the EAFE returned (45.02%). The top three EAFE country performers were: Switzerland (30.73%), Japan (34.88%) and the United Kingdom (45.15%). The bottom three EAFE country performers were: Belgium (67.19%), Austria (65.72%) and Ireland (65.21%).

The MSCI Emerging Markets index returned (27.37%) during October 2008. The top three country performers were: Pakistan (3.91%), Morocco (10.59%) and Malaysia (17.47%). The bottom three country performers were: Hungary (43.35%), Argentina (41.68%) and Indonesia (39.56%).

On a year-to-date basis, the MSCI Emerging Markets index returned (53.18%). The top three country performers include: Morocco (8.80%), Jordan (18.82%) and Israel (26.11%). The bottom three country performers include: Russia (65.28%), India (63.91%) and Turkey (60.39%).

The MSCI G7 index measures the performance of the world's seven most wealthy countries and includes the following, along with their respective estimated percentage weighting: Canada (15%), U.S. (30%), Japan (20%), Germany (10%), France (10%), Britain (10%) and Italy (5%).

During October 2008, the MSCI G7 index returned (18.40%). The top three G7 performers were: Japan (14.79%), the United States (17.25%) and the United Kingdom (19.13%). The bottom three G7 performers were: Canada (27.16%), Italy (23.62%) and Germany (22.97%).

On a year-to-date basis, the MSCI G7 index returned (37.98%). The top three G7 performers were: the United States (34.14%), Japan (34.88%) and Canada (41.41%). The bottom three G7 performers were: Italy (52.21%), France (45.95%) and the United Kingdom (45.15%).

Net Total Return of MSCI Indices (U.S. $)

Overseas Markets	OCT 2008	YTD 2008
The World Index	(19.05)	(39.75)
The World Index (Ex U.S.)	(20.87)	(44.75)
EAFE	(20.24)	(45.02)
Europe	(21.32)	(46.91)
Far East	(16.01)	(37.66)
Emerging Markets	(27.37)	(53.18)
G7 Index	(18.40)	(37.98)