

November 5, 2008

Dear Friend,

Current economic news seems completely dismal. Since October, 2007 we have witnessed shocking developments. The landscape of major financial institutions has changed forever with events such as buy outs, bailouts, takeovers, bankruptcies and bank failures that continue as this is written. This calamity is not confined to the U.S., but is occurring worldwide. And it may get worse before it gets better.

What could possibly have happened to cause all of this? The reasons are manifold and to detail the cause and effect would be well beyond the scope of this letter. Furthermore, it is not apparent at this point that anyone completely understands the root causes. In broad terms, we all know we've experienced a period of rapidly rising real estate prices, declining mortgage lending standards and the new practice of bundling the mortgages and then slicing them up into units which were sold to eager investors all over the world. This unprecedented combination of events has resulted in a global financial crisis.

The effect on the world's stock markets has been drastic. As of this writing, since the market highs of about a year ago, the S&P 500 is down over 46%, the EAFE International index is down nearly 55% and the BRIC index (Brazil, Russia, India and China) is down nearly 73%. But while the causes of this particular downturn are unique and unprecedented, market downturns of this magnitude are not. Historically, bear markets have occurred every 5 years. And in fact, this is the 11th such downturn in the last 50 years. The severity and recurrence of these downturns is an amazing truth. But, we must remember the resiliency of the world's capital is equally amazing. Every single bear market, historically, has been followed by ascensions to new market highs. Every time!

Much is being made of the fact that "It's different this time." We agree that the cause of this decline is different. If investors had experienced these particular events in the past there wouldn't be a decline. Every time something shocks the market into such a retreat, it has to be different. Human beings are not likely to be fooled by the same thing very many times.

To provide more information regarding these ongoing market cycles, you can visit our website. Select the link in the article "Is it different this time?" You'll see a request for a log in you can ignore. This presentation is by a highly regarded researcher with a very large institutional investment management firm. <http://www.arcadiaia.net/blog.html>

Please feel free to call us if you have any questions about today's markets, or if we can help you in your current situation.

Sincerely,

Arcadia Investment Advisors, LLC